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UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA

ROLEX WATCH U.S.A., INC.,

Plaintiff,

v.

CAPETOWN DIAMOND
CORPORATION, CAPETOWN
LUXURY GROUP, CARL MARCUS, and
ROSE MARCUS,

Defendants.

Case No. 3:08:MC-80125-MMC (underlying
action pending in the U.S. District Court for the
N. District of Georgia, Case No. 1:03-CV-3001-
CC)

**DEFENDANTS' RESPONSE TO MOTION
TO QUASH SUBPOENA FOR
DEPOSITION OF J. THOMAS
MCCARTHY**

INTRODUCTION

Professor J. Thomas McCarthy (“Professor McCarthy”) seeks to quash Defendants’ subpoena for the production of documents and testimony on the grounds that he is an “un-retained expert” who is protected from discovery under Fed. R. Civ. P. 45(c)(3)(B)(ii). Professor McCarthy insists that Defendants are seeking his expert opinions and that he will be deprived of his intellectual property without compensation if required to testify in this case. Contrary to these arguments, Defendants do not seek Professor McCarthy’s expert opinions, but rather seek very limited factual information about whether certain facts having a direct bearing on the pending case were known to Professor McCarthy at the time that he gave expert testimony when retained

1 on behalf of Rolex in two separate actions, which, Rolex has argued, should control the Court's
 2 decision in the above-captioned action. Because the testimony and evidence sought do not fall
 3 within the purview of Rule 45(c)(3)(B)(ii), Defendants' subpoena should not be quashed, and
 4 even if the testimony and evidence sought did fall within the protections of Rule 45(c)(3)(B)(ii),
 5 Defendants have a substantial need for the information that cannot be otherwise met without
 6 undue hardship and will agree to pay Professor McCarthy reasonable compensation.
 7

8 **BACKGROUND FACTS**

9 Rolex is seeking a permanent injunction against Defendants from the sale of any new or
 10 used Rolex watches based upon a 13 year old Settlement Agreement and Consent Judgment
 11 (collectively, "the 1990 Consent Judgment"). The 1990 Consent Judgment authorizes Defendants
 12 to sell Rolex watches subject to certain restrictions relating to advertising and disclaimers
 13 regarding the absence of any relationship between Rolex and Defendants. The 1990 Consent
 14 Judgment also authorizes Defendants to add certain accessories to genuine Rolex watches,
 15 including non-genuine (that is, non-Rolex) parts, such as bezels, dials, bracelets, clasps, diamonds
 16 and other jewelry, provided only that Defendants disclose that the aftermarket parts are not
 17 genuine Rolex parts and that their use may void any remaining Rolex warranty. (See the 1990
 18 Consent Judgment attached to the Declaration of Donald R. Andersen as Exhibit A.) Rolex did
 19 not claim or reserve any right under the 1990 Consent Judgment to exercise any quality control
 20 over the addition of non-genuine parts to genuine Rolex watches, and specifically disclaimed and
 21 disavowed any requirement to do so.
 22
 23

24 The 1990 Consent Judgment was filed under seal. The 1990 Consent Judgment contained
 25 a confidentiality provision, prohibiting the parties to the 1990 Consent Judgment, Rolex and
 26 Defendants, from disclosing the existence of the 1990 Consent Judgment. The parties kept that
 27 Consent Judgment a secret until the institution of this action by Rolex in 2003, alleging breach of
 28

1 the 1990 Consent Judgment. In this action, Rolex also alleges, among other things, that
 2 Defendants have violated state and federal law by “counterfeiting” Rolex watches and infringing
 3 upon Rolex’s trademark by adding the very non-genuine diamond dials, bezels, bracelets and
 4 clasps to genuine Rolex watches that it is authorized to add under the 1990 Consent Judgment.

5
 6 In support of its counterfeiting claims, Rolex relies principally on two opinions, *Rolex*
 7 *Watch, U.S.A., Inc. v. Michel Co.*, 179 F.3d 704 (9th Cir. 1999) and *Rolex Watch, U.S.A., Inc. v.*
 8 *Meese*, 158 F.3d 816 (5th Cir. 1998). Both of these cases held that the alteration of Rolex
 9 watches with non-genuine parts, such as diamond dials, bezels, bracelets, and clasps, constitutes
 10 trademark infringement and “counterfeiting” under the Lanham Act, 15 U.S.C. Section 1114(1),
 11 even though the defendants in both of those cases disclosed that the added parts were not genuine
 12 and not authorized by Rolex – just as Rolex had expressly authorized Defendants to do in the
 13 1990 Consent Judgment. In *Meece* and *Michel*, the respective circuit courts, including a panel of
 14 this Circuit, held that the alteration of the watches via addition of the non-genuine parts resulted
 15 in a new product or “new construction,” warranting the complete injunction of sales of those
 16 enhanced watches, even if the sales were accompanied by appropriate disclosures regarding the
 17 use of non-genuine parts. The respective circuit courts ultimately concluded that the enhanced
 18 watches were “counterfeits” and that they infringed and diluted Rolex’s trademark by causing the
 19 Rolex name to be associated with an inferior product, regardless of whether disclosures were
 20 made.
 21
 22

23 In both of those cases, Rolex relied upon the expert testimony of Professor McCarthy.
 24 Specifically, Professor McCarthy testified that the addition of non-genuine parts, such as diamond
 25 dials, bezels, bracelets, and clasps, to new Rolex watches amounts to trademark infringement or
 26 counterfeiting under the Lanham Act. (See testimony of Professor McCarthy in *Michel* and
 27 *Meese*, Declaration of Donald R. Andersen, Exhibit B, especially p. 17, line 13 to p. 18, line 8;
 28

1 and Exhibit C, p. 71, lines 13-16; p. 71, line 24 to p. 75, line 18; p. 77, lines 20-23; and p. 99,
 2 lines 1-11).

3 There is no mention in Professor McCarthy's testimony and no discussion in either the
 4 *Meece* or *Michel* cases of the existence of the 1990 Consent Judgment, pursuant to which Rolex
 5 permitted Defendants to perform, without Rolex's monitoring or supervision, the very alterations
 6 and enhancements it claims amounted to "counterfeiting" and trademark infringement in the
 7 *Meece* and *Michel* cases. This is a material omission, which as to Rolex rises to the level of fraud
 8 upon those courts, because the permission granted to Defendants under the 1990 Consent
 9 Judgment—to alter Rolex watches with non-genuine parts outside of Rolex's monitoring and
 10 supervision—means either that the activities in question are not really counterfeiting or trademark
 11 infringement at all or that Rolex has granted Defendants a license to counterfeit its watches and
 12 infringe upon its trademark without any quality control and therefore has abandoned any rights to
 13 trademark protection for genuine Rolex watches to which aftermarket diamond accessories have
 14 been added. The existence of the 1990 Consent Judgment vitiates Rolex's arguments in the
 15 *Meece* and *Michel* cases, and the absence of any mention of this Consent Judgment in those cases,
 16 including in Professor McCarthy's testimony, suggests that Rolex concealed the existence of that
 17 Consent Judgment from both Professor McCarthy and the courts.
 18

19
 20
 21 Defendants seek to depose Professor McCarthy not only for the purpose of finding out
 22 whether the 1990 Consent Judgment was disclosed to and reviewed by him, but also whether the
 23 existence of the 1990 Consent Judgment would have been material to his testimony, and whether
 24 the existence of the 1990 Consent Judgment would have changed his testimony – testimony that
 25 he was retained by Rolex to provide and for which he has already been compensated. Therefore,
 26 Defendants are not seeking to compel expert testimony from Professor McCarthy without
 27 compensation; they are simply seeking to cross-examine him as to the basis for those
 28

1 compensated opinions in the cases upon which Rolex now relies. For the reasons set forth below,
 2 Fed. R. Civ. P. 45(c)(3)(B)(ii) is inapplicable to the information and testimony requested in
 3 Defendants' subpoena, and even if it were, this Court should exercise its discretion to permit the
 4 testimony.

5 **ARGUMENT AND POINTS OF AUTHORITY**

6 The purpose of Fed. R. Civ. P. 45(c)(3)(B)(ii) is to protect experts from being required to
 7 provide expert advice or assistance without proper compensation. As the Advisory Committee
 8 notes explain, "[e]xperts are not exempt from the duty to give evidence."¹ Rather, experts are
 9 required to respond to a subpoena and give evidence unless the compulsion to give evidence
 10 threatens their "intellectual property" and denies them "the opportunity to bargain for the value of
 11 their services." Fed. R. Civ. P. (c)(3)(B)(ii), Advisory Committee's Note.

12 The Rule, on its face, does not apply to the testimony sought from Professor McCarthy.
 13 The Rule permits a court, in its discretion, to modify or quash a subpoena if the subpoena requires
 14 "disclosing an unretained expert's opinion or information that does not describe specific
 15 occurrences in dispute and results from the expert's study that was not requested by a party."
 16 Fed. R. Civ. P. (c)(3)(B)(ii). At the outset, it is worth noting that Defendants' subpoena does not
 17 seek "results from the expert's study that was not requested by a party." Rather, Defendants'
 18 subpoena seeks factual information related to opinions previously expressed on behalf of Rolex, a
 19 party to this action, in two prior actions, which are directly relevant to facts in dispute in the
 20 instant action. In *Schering Corp. v. Amgen, Inc.*, Nos. Civ. A. 98-97 MMS, Civ.A. MMJ, 1998
 21 WL 552944 (D. Del. Aug. 4, 1998), cited by Professor McCarthy in support of his arguments, the
 22 district court specifically found that the expert's testimony did not result "from a study made at
 23

24
 25
 26 ¹ In fact, "[t]he weight of authority holds that, although it is not the usual practice, a court does
 27 have the power to subpoena an expert witness and, though it cannot require him to conduct any
 28 examinations or experiments to prepare himself for trial, it can require him to state whatever
 opinions he may have previously formed." *Carter-Wallace, Inc. v. Otte*, 474 F.2d 529 (2d Cir.
 1972).

1 the request of either Schering/Biogen or Amgen [the parties to the action], but on the request of
2 Genentech/Hoffman-La Roche, who is not a party to this case.”

3 Furthermore, unlike like the requesting party in *Amgen*, Defendants are not attempting to
4 compel Professor McCarthy to provide expert opinion. In *Amgen*, the experts were asked to
5 testify “as to the work required to express an interferon protein or the knowledge of one of
6 ordinary skill in the art.” This testimony is clearly nothing other than expert testimony. In the
7 instant case, by contrast, Defendants simply seek to learn: (1) whether Professor McCarthy was
8 aware of the 1990 Consent Judgment when he offered his opinions in the *Meece* and *Michel*
9 cases; (2) whether the provisions of the 1990 Consent Judgment would have been material to the
10 opinions that Professor McCarthy rendered in the *Meece* and *Michel* cases; and (3) whether
11 knowledge of the provisions of the 1990 Consent Judgment would have changed Professor
12 McCarthy’s opinions in the *Meece* and *Michel* cases. While this testimony would certainly relate
13 to Professor McCarthy’s prior testimony on behalf of Rolex, it is not, in and of itself, an expert
14 opinion. Accordingly, the testimony sought does not fall within the parameters of Fed. R. Civ. P.
15 45(c)(3)(B)(ii).
16

17 Moreover, Professor McCarthy’s motion to quash is clearly not interposed in order to
18 further the purpose behind the Rule, to prevent the “taking” of Professor McCarthy’s intellectual
19 property without compensation. Professor McCarthy, like the expert in *Arkwright Mut. Ins. Co.*
20 *v. National Union Fire Ins. Co.*, 148 F.R.D. 552 (S.D. W. Va. 1993), was fully compensated by
21 Rolex for his testimony in the *Meece* and *Michel* cases. Thus, “[g]iven this prior compensation,
22 [Professor McCarthy] will not suffer a ‘taking’ of intellectual property’ by appearing at the
23 noticed deposition and testifying [at most] to the opinions he has already formulated at [Rolex’s]
24 expense.” *Id.* at 557-8.² In *Amgen*, the court similarly noted that to the extent that one of the
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28 ² The Second Circuit, in *Carter-Wallace*, noted, “[s]ince the witnesses involved here had
CA285:000CA:165868:1:ATLANTA DEFENDANTS' RESPONSE TO MOTION TO
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THOMAS MCCARTHY 3:08:MC-80125-MMC

1 experts “would be asked to testify to previously formed or expressed opinion, this factor would
 2 also favor compelling her to testify.” *Id.* at 10. Moreover, as shown above, Defendants do not
 3 seek to compel Professor McCarthy’s expert opinion or the production of his “intellectual
 4 property.” As to the questions of whether Professor McCarthy was aware of the 1990 Consent
 5 Judgment and whether knowledge would have been material to or changed to his opinions, again,
 6 these are questions of fact, not opinion, the answers to which could not conceivably be classified
 7 as Professor McCarthy’s “intellectual property.” Accordingly, the purpose behind the Rule, the
 8 protection of the expert’s “intellectual property” and “the opportunity to bargain for the value of
 9 [his] services,” will in no way be served by quashing the subpoena and forbidding Professor
 10 McCarthy’s testimony.

11
 12 Even if this Court concludes that Professor McCarthy’s testimony and information fall
 13 within the scope of the Rule, the decision whether to quash or modify a subpoena pursuant to Fed.
 14 R. Civ. P. 45(c)(3)(B)(ii) is still within the discretion of the court. *Arkwright Mut. Ins. Co. v.*
 15 *National Union Fire Ins. Co.*, 148 F.R.D. 552 (S.D. W. Va. 1993). The Court’s discretion is
 16 guided, as stated in the Advisory Committee Comments, by the factors discussed in *Kaufman v.*
 17 *Edelstein*, 539 F.2d 811 (2d Cir. 1976):

18
 19
 20 Appropriate factors for consideration . . . would be the degree to
 21 which the expert is being called because of his knowledge of facts
 22 relevant to the case rather than in order to give opinion testimony,
 23 the difference between testifying to a previously formed or
 24 expressed opinion and forming a new one; the possibility that, for
 25 other reasons, the witness is a unique expert; the extent to which the
 26 calling party is able to show the unlikelihood that any comparable
 27 witness will willingly testify; [and] the degree to which the witness
 28 is able to show that he has been oppressed by having continually to
 testify . . .

29
 30 *Id.* 558 n. 12 (citing *Kaufman*, 539 F.2d at 822); see also *Young v. U.S.*, 181 F.R.D. 344,

31
 32 previously testified as to their opinions, it would seem that they could have been subpoenaed to
 repeat their testimony here.” *Carter-Wallace, Inc. v. Otte*, 474 F.2d 529 (2d Cir. 1974).

1 348 (W.D. Tex. 1997).

2 The *Kaufman v. Edelstein* factors militate in favor of denying the Motion to Quash.
 3 Professor McCarthy has been subpoenaed to provide information relating to factual issues,
 4 relevant to the pending case. (1) Professor McCarthy is being asked to testify as to his knowledge
 5 of facts that have relevancy to this case rather than for the expression of his opinion. (2)
 6 Defendants do not seek any new opinions from Professor McCarthy, but at most seek information
 7 about his previously formed and expressed opinions. (3) Professor McCarthy is a unique witness,
 8 being the only witness to offer opinions in the *Meece* and *Michel* cases. (4) Because Professor
 9 McCarthy was the only person to offer expert testimony in *Meece* and *Michel*, he is the only
 10 possible witness. (5) Professor McCarthy has provided no evidence that he will be “oppressed” by
 11 having to provide testimony on these facts “continually,” and it is unlikely that this will happen,
 12 because the testimony at issue relates to a Consent Judgment between the parties to this case.
 13

14 The documents requested from Professor McCarthy are similarly outside the scope of
 15 Fed. R. Civ. P. 45(c)(3)(B)(ii) and are not protected from disclosure. The documentary evidence
 16 requested is limited to the information supplied to and used by Professor McCarthy in
 17 formulating his opinions in the *Meece* and *Michel* cases. This is precisely the type of information
 18 that was held in *Friedland v. TIC—The Indus. Co.*, Civ.A. No. 04-CV-01263-PSF-MEH, 2006
 19 WL 2583113 (D. Colo. Sept. 5, 2006), cited by Professor McCarthy, to be outside the scope of
 20 and unprotected by Rule Fed. R. Civ. P. 45(c)(3)(B)(ii). The Court in *Friedland* held that these
 21 documents³ were not protected by the Rule because they did not constitute the expert’s
 22 “intellectual property.” The court contrasted these documents with documents such as
 23 summaries, spreadsheets, databases, expert reports, and opinions, which the court did conclude
 24 were part of the expert’s intellectual property and therefore protected by the Rule. Defendants are
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28 ³ The documents at issue were billing records.

1 not seeking any such materials in this case. And, to the extent that Defendants' subpoena could
 2 be construed to include such materials, Defendants will agree to modify their subpoena to exclude
 3 such documents.

4
 5 Moreover, even if this Court concludes that the documents and testimony sought from
 6 Professor McCarthy fall within the protection of Fed. R. Civ. P. 45(c)(3)(B)(ii) and that the
 7 *Kaufman* factors do not militate in favor of permitting the testimony, Defendants still would be
 8 entitled to the information sought on the grounds that Defendants (a) have a "substantial need for
 9 the material that cannot be otherwise met without undue hardship" and (b) will provide Professor
 10 McCarthy with reasonable compensation for his testimony and his efforts in producing
 11 documents. Fed. R. Civ. P. 45(c)(3)(C). See also *Schering Corp. v. Amgen, Inc.*, Nos. Civ. A.
 12 98-97 MMS, Civ.A. MMJ, 1998 WL 552944 (D. Del. Aug. 4, 1998). To establish undue
 13 hardship, "[a] party must show that the substantial equivalent cannot be obtained through other
 14 means." *Friedland v. TIC—The Indus. Co.*, Civ.A. No. 04-CV-01263-PSF-MEH, 2006 WL
 15 2583113 (D. Colo. Sept. 5, 2006)(citing *Connelly v. Dun & Bradstreet, Inc.*, 96 F.R.D. 339, 342
 16 (D. Mass. 1982). Such is the case here. Rolex relied upon Professor McCarthy's testimony in the
 17 *Meece* and *Michel* cases, which ultimately held that the addition of non-genuine accessories to
 18 genuine Rolex watches constituted counterfeiting and trademark infringement. Defendants
 19 believe that Professor McCarthy would not have offered the opinions that he offered in *Meece*
 20 and *Michel* had he known that Rolex permitted Defendants to do under the 1990 Consent
 21 Judgment what they alleged in *Meece* and *Michel* amounted to counterfeiting and trademark
 22 infringement. Only the opposing party and Professor McCarthy know whether in fact Professor
 23 McCarthy was aware of the 1990 Consent Judgment, and only Professor McCarthy knows
 24 whether the existence of the 1990 Consent Judgment might have been material to or affected his
 25 opinion. Accordingly, there is no other means by which Defendants can obtain the evidence
 26
 27
 28

1 sought.

2 Finally, if this Court ultimately concludes that Professor McCarthy is in genuine peril of
3 having his “intellectual property” taken without compensation, then Defendants are willing to pay
4 reasonable compensation to Professor McCarthy for his appearance and testimony at a deposition
5 and for the time spent gathering the documents responsive to the subpoena.
6

7 CONCLUSION

8 For the reasons set forth herein, the testimony and documents requested from Professor
9 McCarthy are not protected from disclosure under Fed. R. Civ. P. 45(c)(3)(B)(ii). Professor
10 McCarthy is not being compelled to offer his expert opinions and work product without
11 compensation. Even if Professor McCarthy’s testimony and information fall within the scope of
12 Fed. R. Civ. P. 45(c)(3)(B)(ii), then this court should exercise its discretion to compel the
13 testimony and information sought for the reasons set forth herein, and, if required, Defendants are
14 prepared to pay reasonable compensation to Professor McCarthy. Accordingly, the motion to
15 quash should be denied.
16

17
18 Dated: this 3rd day of July, 2008

Respectfully submitted,

19
20
21 By: /s/ Daniel S. Mason

Daniel S. Mason (Cal. Bar No. 54065)
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CERTIFICATE OF SERVICE

I, Robert L. Newman, declare under penalty of perjury that the following is true and correct:

I am a citizen of the United States; am over the age of 18 years; am employed by ZELLE, HOFMANN, VOELBEL, MASON & GETTE LLP, located at 44 Montgomery Street, Suite 3400, San Francisco, California 94104, whose members are members of the State Bar of California and at least one of whose members is a member of the Bar of each Federal District Court within California; am not a party to the within action; and that I caused to be served a true and correct copy of the following documents in the manner indicated below:

1. DEFENDANTS' RESPONSE TO MOTION TO QUASH SUBPOENA FOR DEPOSITION OF J. THOMAS MCCARTHY; and
2. CERTIFICATE OF SERVICE.

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☒ **By Electronic Filing:** I served on this date a true copy of each document listed above via the Court's ECF system on all parties registered for electronic filing and service in this action.

☒ **By U.S. Mail:** I caused on this date a true copy of each document listed above to be served via U.S. Mail, postage prepaid, on all parties not registered for electronic filing and service in this action.

Dated: this 3rd day of July, 2008

By: /s/ Robert L. Newman
 Robert L. Newman
 Paralegal

Exhibit A

(Declaration of Donald R. Andersen)

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7 MARCUS, AND ROSE MARCUS

8 UNITED STATES DISTRICT COURT
9 NORTHERN DISTRICT OF CALIFORNIA

10
11 ROLEX WATCH U.S.A., INC.,

12 Plaintiff,

13 v.

14 CAPETOWN DIAMOND
CORPORATION, CAPETOWN
15 LUXURY GROUP, CARL MARCUS, and
ROSE MARCUS,

16 Defendants.
17

Case No. 3:08:MC-80125 (underlying action
pending in the U.S. District Court for the N.
District of Georgia, Case No. 1:03-CV-3001-
CC)

**DECLARATION OF DONALD R.
ANDERSEN IN SUPPORT OF
DEFENDANTS' RESPONSE TO MOTION
TO QUASH SUBPOENA FOR
DEPOSITION OF J. THOMAS
MCCARTHY**

18 **DECLARATION OF DONALD R. ANDERSEN**

19 I, Donald R. Andersen, declare and state as follows:

20 1.

21 I am a partner at the law firm of Stites & Harbison, PLLC. I have personal knowledge of
22 the following facts, and if called as a witness, I could and would testify competently thereto.

23 2.

24 My firm serves as counsel for Capetown Diamond Corporation, Capetown Luxury Group,
25 Carl Marcus, and Rose Marcus ("Defendants"), Defendants in *Rolex Watch U.S.A., Inc. v.*
26 *Capetown Diamond Corp., et al.* Civil Case No. 1:03-CV-3001-CC, pending in the United States
27 District Court for the Northern District of Georgia.
28

3.

The attached Exhibits A and B are referenced in the Memorandum of Points and Authorities in Support of Response to Motion to Quash Subpoena *Duces Tecum* served on Non-Party J. Thomas McCarthy, filed jointly by Rolex and Professor McCarthy.

4.

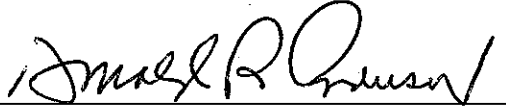
Exhibit A is a true and correct copy of the 1990 Settlement Agreement and Consent Judgment, which is referenced in the Memorandum of Points and Authorities in Support of Response to Motion to Quash Subpoena *Duces Tecum* served on Non-Party J. Thomas McCarthy, filed jointly by Rolex and Professor McCarthy.

5.

Exhibit B is a true and correct copy of the transcript of the testimony of J. Thomas McCarthy in the matter of Rolex Watch U.S.A., Inc. v. Michel Co., et al., U.S. District Court for the Southern District of California, Civil Case No. 96-0805-H (CM).

6.

Exhibit C is a true and correct copy of excerpts of the testimony of J. Thomas McCarthy in the matter of Rolex Watch U.S.A., Inc. v. Robert Meece, U.S. District Court for the Northern District of Texas, Civil Case No. 3:95-CV-1058(T).


Donald R. Andersen

Declaration of Donald R. Andersen

Exhibit A

(1990 Settlement Agreement and Consent Judgment)

SETTLEMENT AGREEMENT

This instrument is made and entered into between ROLEX WATCH U.S.A., INC., (hereinafter "ROLEX") on the one hand, and Roger Grafstein & Co., a California corporation, and Carl Marcus, an individual (hereinafter collectively "Defendants") on the other hand. The term "Party," as used herein, shall refer to ROLEX or the Defendants; "Parties" shall mean ROLEX and the Defendants. "This Agreement" refers to the present Settlement Agreement, of which this definition is a part. The term "Court" refers to the United States District Court for the Central District of California.

The parties to this Agreement, in consideration of the terms and covenants set forth below, agree as follows:

1. Defendants agree to enter into a Consent Judgment and Permanent Injunction between Plaintiff and Defendants (the "Consent Judgment") in the civil litigation matter captioned ROLEX WATCH U.S.A., INC. v. Roger Grafstein & Co., et al., Civil Action No. 90-3185 RB (GHKx), containing a permanent injunction, and other terms as set forth in Exhibit "A" hereto.
2. Defendants agree that Defendants will not in the future be involved in any transactions, discussions or negotiations in violation of the terms of the Consent Judgment and that Defendants and Defendants' agents, servants, employees and any persons acting in concert with any of them will abide by each

and every term and condition of this Agreement and of the Consent Judgment referred to in Paragraph 1 hereof.

3. Defendants agree that in addition to any other remedies ROLEX might have as a result of the breach of this Agreement, that a breach of any term, condition or obligation of this Agreement or the Consent Judgment by Defendant will allow ROLEX to proceed against Defendants in the present action or in a subsequent action. The Release given by ROLEX in Paragraph 5 hereof does not apply to any future breaches of the Agreement. In such proceedings ROLEX shall be entitled to seek recovery of all available monetary and injunctive remedies for breach of this Agreement, trademark infringement, trademark counterfeiting, false designation of origin, trademark dilution, and unfair competition. In addition, upon proof of a material breach found by the court at a noticed hearing with Defendants having an opportunity to oppose, Defendants hereby consent to entry of a Permanent Injunction against them permanently enjoining their participation in the purchase, advertising, or sale of any product bearing any Rolex Trademark, even if such product is entirely genuine.

4. Defendants, on behalf of Defendants' agents, employees, personal representatives, assigns, heirs, and attorneys, hereby release, acquit, and forever absolutely discharge ROLEX and its officers, directors, agents, servants, employees, stockholders, insurers and assigns, and all companies

in which ROLEX has an interest or which may have an interest in ROLEX, and their attorneys, Lyon & Lyon, and Gibney, Anthony & Flaherty and the partners, associates, employees, agents, insurers, assigns, investigators and investigative agencies of or for those attorneys, from any and all actions, causes of action, claims, debts, liabilities, accounts, demands, damages, causes, claims for indemnification or contribution or any other thing whatsoever whether known or unknown, suspected or unsuspected, certain or speculative, including but not limited to trademark, unfair competition or antitrust claims and any cause of action under 15 U.S.C. § 1116(d) on account of or in any way arising out of the subject matter of the above identified litigation, any proceedings therein or any investigations directed to the subject matter thereof, which existed as of the effective date of this release or which may have come into existence at any time prior to the effective date of this release or which may in the future arise out of any acts or omissions of any discharged person at any time prior to the effective date of this release, said release being contingent on the ordering by the Court of the Consent Judgment and Permanent Injunction that is to be signed by all parties.

5. ROLEX, on behalf of its agents, employees, personal representatives, assigns, heirs, and attorneys, hereby releases, acquits, and forever absolutely discharges Defendants and Defendants' officers, directors, agents, servants, employees,

stockholders, insurers and assigns, and all companies in which Defendants have an interest or which may have an interest in Defendants, and Defendants' attorneys, from any and all actions, causes of action, claims, debts, liabilities, accounts, demands, damages, causes, claims for indemnification or contribution or any other thing whatsoever whether known or unknown, suspected or unsuspected, certain or speculative, including but not limited to trademark and unfair competition claims on account of or in any way arising out of the operation of Grafstein and Company and Carl Marcus' assumption therewith which is the subject matter of the above identified litigation, any proceedings therein or any investigations directed to the subject matter thereof, which existed as of the effective date of this release or which may have come into existence at any time prior to the effective date of this release or which may in the future arise out of any acts or omissions of any discharged person at any time prior to the effective date of this release, said release being contingent on the ordering by the Court of the Consent Judgment that is to be signed by all Parties.

6. The Parties acknowledge familiarity with Section 1542 of the Civil Code of the State of California, which provides as follows:

A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor.

The Parties waive and relinquish any right and benefit which the Parties have or may have under Section 1542 to the full extent that the Parties may lawfully waive all such rights and benefits pertaining to the subject matter of this Agreement.

7. On or before January 1, 1991 Grafstein will relinquish the 1-800-24ROLEX telephone number. Specific instructions to the telephone company allowing Rolex to obtain the number will be prepared and signed at the time of any settlement agreement. Grafstein shall be entitled to all referrals from said number until January 1, 1991 from said number.

8. Grafstein agrees that no reference will be made orally or in any writing stating that Grafstein's advertising or method of operation has in any way been approved by Rolex.

9. The Plaintiff and its officers, directors, and employees including Rolex salesmen agree not to disclose the specific terms of this Settlement Agreement and related Consent Judgment, except that Plaintiff may make limited disclosure as follows:

- a. To its own directors, officers and employees including Rolex salesmen;
- b. In the process of negotiating or attempting to negotiate a resolution or settlement with a third party where Rolex's trademark rights are involved.

- c. In response to any court or government agency process or government agency request.
- d. In response to unsolicited inquiries from third parties regarding misinformation with respect to the terms and conditions of the Consent Judgment or this Agreement.

Unless and until such time as a court of competent jurisdiction has issued a ruling or order, written or otherwise, holding Defendants or either Defendant in breach or contempt of this Settlement Agreement or Consent Judgment, or both, or if Defendants make any public representation of the terms of the Consent Judgment or the Agreement, the Plaintiff shall in no way publish, print, distribute, advertise, or disseminate the specific terms of this Settlement Agreement and related Consent Judgment to third parties, including but not limited to other jewelers, whether official Rolex jewelers or not, and the Watchword. A material breach by Plaintiff of this provision will allow Defendants to recover any damages proved as a result of such breach but shall not affect any other provision of this Agreement.

10. The Parties will execute all papers necessary to implement the provisions of the foregoing paragraphs.

11. Each Party to this Settlement Agreement acknowledges that no other Party or any agent or attorney of any other Party, or any other person, firm, corporation or any other entity

has made any promise, representation or warranty whatsoever, expressed, implied, or statutory, not contained herein, concerning the subject matter hereof, to induce the execution of this instrument, and each signatory hereby acknowledges that he, she or it has not executed this instrument in reliance on any promise, representation or warranty not contained herein.

12. This instrument shall be binding upon and inure to the benefit of the Parties hereto, and each of them, and each and all of their representatives, officers, directors, shareholders, partners, successors, assigns, employees, and agents.

13. This instrument shall in all respects be interpreted, enforced and governed by and under the laws of the State of California and the statutes of the United States.

14. The waiver of any breach of this Agreement by any Party shall not be a waiver of any other subsequent or prior breach.

15. In the event any Party hereto attempts to set aside or to enforce this Agreement, or brings any actions for its breach, the prevailing Party shall be entitled to all reasonable costs, including, but not limited to, actual attorney's fees.

16. This Agreement shall be construed without regard to the Party or Parties responsible for the preparation of the same. Any ambiguity or uncertainty existing herein shall not be interpreted or construed against any Party hereto.

17. This Agreement shall become binding on the Parties at the time the last of Defendants and a member of Lyon & Lyon and Gibney, Anthony & Flaherty, attorneys for Rolex, execute it below, which shall be the effective date hereof.

18. This Agreement, consisting of Paragraphs 1 through 17, inclusive, together with Exhibit "A" attached hereto, constitutes the entire agreement of the parties and supersedes all prior or contemporaneous agreements, discussions or representations, oral or written, with respect to the subject matter hereof and each of the Parties hereto states that he, she or it has read each of the paragraphs of this Agreement and that he, she or it understands the same and understands the legal obligations created thereby.

FOR ROLEX WATCH U.S.A., INC.:

LYON & LYON
A Partnership Including
WILLIAM C. STEFFIN
A Professional Corporation
JOHN A. RAFTER, JR.
STEPHEN S. KORNICZKY
611 West Sixth Street, 34th Floor
Los Angeles, California 90017
(213) 489-1600

Dated: 7/19/90

By: 

William C. Steffin
Attorneys for Plaintiff
ROLEX WATCH U.S.A., INC.

GIBNEY, ANTHONY & FLAHERTY
JOHN F. FLAHERTY
BRIAN W. BROKATE
STEPHEN F. RUFFINO
665 Fifth Avenue
New York, New York 10022
(212) 688-5151

Dated: 7/19/90

By: 

Brian W. Brokate
Attorneys for Plaintiff,
ROLEX WATCH U.S.A., INC.

ROGER GRAFSTEIN & CO., INC.
1851 East First Street
Suite 715
Santa Ana, CA 92705

Dated: _____

By: _____

Roger Grafstein

ROSALINDA SANTIAGO
c/o Roger Grafstein & Co., Inc.
1851 East First Street
Suite 715
Santa Ana, CA 92705

Dated: 7-19-90

By: 

Rosalinda Santiago

CARL MARCUS (Doe #1)
c/o Roger Grafstein & Co., Inc.
1851 East First Street
Suite 715
Santa Ana, CA 92705

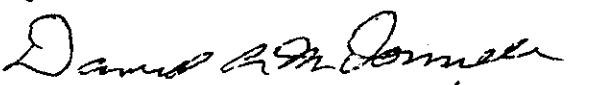
Dated: 07-19-90

By: 

Carl Marcus

DATED: 7-19-90

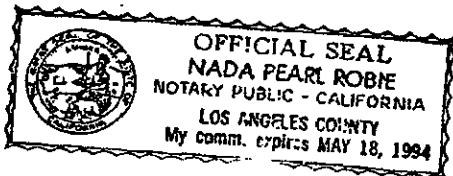
C:\WP\ROLEX\GRAFSTEIN\SA
07/19/90.5 npr/2544


9 attorney for Defendants

STATE OF CALIFORNIA)
COUNTY OF LOS ANGELES) ss.

Before me, the undersigned Notary Public in and for the said County and State, personally appeared CARL MARCUS AND ROSALINDA SANTIAGO, who acknowledged that ~~he~~^{they} signed the attached Settlement Agreement.

EXECUTED this 19th day of JULY, 1990, at LOS ANGELES, California.



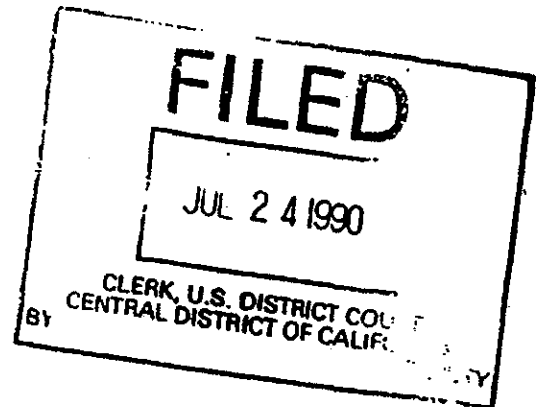
Nada Pearl Robie
Notary Public in and for said County and State

Witness my hand and Official Seal.

1 LYON & LYON
A Partnership Including
2 WILLIAM C. STEFFIN
A Professional Corporation
3 JOHN A. RAFTER, JR.
611 West Sixth Street, 34th Floor
4 Los Angeles, California 90017
(213) 489-1600

5 GIBNEY, ANTHONY & FLAHERTY
6 JOHN F. FLAHERTY
BRIAN W. BROKATE
7 665 Fifth Avenue
New York, New York 10022
8 (212) 688-5151

9 Attorneys for Plaintiff
ROLEX WATCH U.S.A., INC.



ENTERED

11 JUL 25 1990

12 CLERK U.S. DISTRICT COURT
CENTRAL DISTRICT OF CALIF.

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

14 ROLEX WATCH U.S.A., INC.,

15 Plaintiff,

16 v.

17 ROGER GRAFSTEIN & CO., INC.,
18 a California corporation;
19 CARL MARCUS (Doe #1), and
DOES 2-10,

20 Defendants.

) Civil Action No.
) 90-3185 RB (BX)

) CONSENT JUDGMENT AND
) PERMANENT INJUNCTION
) BETWEEN PLAINTIFF AND
) DEFENDANT

) [UNDER SEAL]

21
22
23 Plaintiff, ROLEX WATCH U.S.A., INC. ("Rolex" or "the
24 Plaintiff") and Defendants Roger Grafstein & Co., Inc. and Carl
25 Marcus (Doe #1) hereinafter jointly referred to as "Defendants" or
26 "Grafstein", in compromise and settlement of this action on the
27 terms and conditions of a Settlement Agreement made between them
28

1 having agreed that a Consent Judgment and Permanent Injunction
2 should be entered between them and good cause appearing therefor,

3 IT IS ORDERED, ADJUDGED, AND DECREED:

4 1. This case arose under the Trademark Act of 1946,
5 15 U.S.C. §§ 1051-1127. This Court has jurisdiction over each of
6 the parties to this action and over the subject matter thereof
7 pursuant to 15 U.S.C. § 1121, 28 U.S.C. § 1338(a), 28 U.S.C.
8 § 1331, and 28 U.S.C. § 1332. The amount in controversy exceeds
9 the sum of \$10,000, exclusive of interest and costs. The claims
10 arising under the State dilution and unfair competition statutes,
11 California Business and Professional Code §§ 14330, 17203 and
12 under common law rights are joined with the substantial and
13 related claim under the Trademark Laws of the United States,
14 15 U.S.C. §§ 1051-1127. Therefore, the Court has jurisdiction
15 over the state unfair competition claims pursuant to 28 U.S.C.
16 § 1338(b). The Court further has continuing jurisdiction to
17 enforce the terms and provisions of this Consent Judgment and
18 Permanent Injunction.

19

20 FINDINGS OF FACT AND CONCLUSIONS OF LAW

21 2. Plaintiff, Rolex Watch U.S.A., Inc. (Rolex) is a
22 New York corporation having a principal place of business in New
23 York, New York, and Defendant Roger Grafstein & Co., Inc.
24 (Grafstein) is a California corporation having a principal place
25 of business in Santa Ana, California. Defendant Carl Marcus (Doe
26 #1) is an individual residing and transacting business in this
27 district and has participated with Roger Grafstein & Co., Inc. in
28 the activities to which the Complaint is directed.

1 3. Rolex is the owner of the registered, valid,
2 incontestable and subsisting Trademarks ROLEX, PRESIDENT, and
3 CROWN DEVICE (Exhibits 1, 2, and 3 hereto, referred to collec-
4 tively as The Rolex Trademarks) and is the exclusive distributor
5 of ROLEX watches in the United States. Rolex distributes ROLEX
6 watches through a network of carefully selected Official Rolex
7 Jewelers, and advertises such ROLEX watches in national
8 publications in connection with the Rolex Trademarks and
9 photographs of ROLEX watches.

10 4. The public has come to associate the use of the
11 Rolex Trademarks and depictions of photographs of ROLEX watches
12 with products offered by or under the direction and control of or
13 under the sponsorship or approval of or in association with Rolex.

14 5. Grafstein has advertised the availability for sale
15 of new, used and "custom" watches which may have started as ROLEX
16 watches in a variety of advertisements, samples of which are
17 attached to the Complaint as Exhibits D-K. These advertisements
18 emphasize the Rolex Trademarks, utilize a photograph of a ROLEX
19 watch as a primary feature thereof and compare Grafstein's price
20 of a "custom" watch to Rolex's suggested retail price for a
21 genuine ROLEX Watch.

22 6. In connection with the advertising campaign,
23 customers have responded and approached Grafstein to purchase
24 watches. On at least two occasions customers have purchased
25 watches from Grafstein allegedly believing the used watches to be
26 genuine ROLEX Watches when in fact the watches contained parts
27 originating from Grafstein.

28 7. Members of the purchasing public are likely to

1 believe or be confused or be deceived into believing that watches
2 bearing the ROLEX Trademarks which they purchase from Grafstein
3 are in fact completely genuine ROLEX Watches or that Grafstein is
4 sponsored, endorsed or approved by or associated or connected with
5 Rolex.

6 8. Grafstein is not an Official Rolex Jeweler and is
7 not authorized by Rolex to offer new ROLEX products to the public.
8 Grafstein does not have any other association with Rolex.

9 9. Members of the purchasing public are likely to
10 believe or be confused or be deceived into believing that
11 Grafstein is an Official Rolex Jeweler or is otherwise sponsored,
12 endorsed or approved by or associated or connected with Rolex.

13 10. Rolex alleges that Grafstein's advertising and
14 promotion of the ROLEX watches it sells and its sales practices
15 misrepresents the nature, characteristics and qualities of those
16 watches. Without admitting any wrongdoing, Grafstein acknowledges
17 that certain changes should be made in its advertising and
18 promotion of the ROLEX watches it sells and in its sales
19 practices.

20 11. Grafstein prominently displays in its advertising
21 the telephone number "800/24ROLEX". The use of that ROLEX
22 telephone number substantially contributes to the likelihood of
23 confusion and misrepresentations set forth in paragraphs 6, 8, and
24 9.

25 12. Defendants enter into this Consent Judgment and the
26 related Settlement Agreement without any admission of wrongdoing,
27 but solely for the purposes of settling disputed claims and to
28 avoid the expense and uncertainty of continuing litigation.

ORDER

IT IS THEREFORE ORDERED, that Defendants Roger Grafstein & Co., Inc., and Carl Marcus, their officers, agents, servants, employees, attorneys and all persons acting for, with or under them or who receive notice of this Order by personal service or otherwise are immediately and permanently enjoined and restrained from:

1. Selling, advertising, or offering for sale any ROLEX watches or watch parts bearing any Rolex Trademark except in compliance with this Injunction. The acts prohibited include, but are not limited to, the following:
 - a) Using the Rolex Trademarks or any colorable imitation of said marks in any manner likely to cause confusion, to cause mistake or to deceive;
 - b) Committing any acts calculated to cause purchasers to believe that Grafstein's products are one hundred percent genuine ROLEX products unless they are entirely such;
 - c) The sale or offering for sale of ROLEX watches or ROLEX watch parts that are not one hundred percent genuine ROLEX watches or watch parts unless said sale or offering for sale is accompanied by a full and adequate disclosure informing the consumer that the watch contains non-genuine ROLEX parts. Invoices are to clearly identify and list each non genuine ROLEX part included in the watch, bracelet or part, as such. In addition, customers must be

1 informed that addition of non-genuine ROLEX parts
2 may void the Rolex warranty, if any exists, and
3 that Grafstein provides its own warranty. Sale of
4 watches or watch parts including non-genuine ROLEX
5 parts is not prohibited by this Order so long as
6 the disclosures set forth in this Consent Judgment
7 are provided to the consumer.

8 d) The sale or offering for sale of used ROLEX watches
9 or watch parts as new.

10 e) For purposes of this Consent Judgment and the
11 accompanying Settlement Agreement, the term "non-
12 genuine" used to describe watches or watch parts
13 shall be deemed to refer to watches or watch parts
14 which were originally entirely genuine ROLEX
15 watches or watch parts in which non-ROLEX parts
16 such as refinished dials, bezels, clasps, diamonds
17 and bracelet links have been substituted or added.
18 In no event does any exception applied to non-
19 genuine watches or watch parts authorize the sale
20 of a watch or watch part bearing the Rolex
21 Trademarks which was not originally a one hundred
22 percent genuine ROLEX product legitimately bearing
23 the Rolex trademark.

24 2. using any and all trademarks of Plaintiff, including
25 without limitation the Rolex Trademarks, or any word or
26 mark confusingly similar thereto (collectively the
27 "Restricted Marks"), in promotional material,
28 advertisements, signs, point of sale displays, or

1 otherwise, in a manner which is likely to cause
2 confusion, deception or mistake to the effect, or in
3 such manner as to imply, that Defendants are an Official
4 Rolex Jeweler or are an authorized dealer, agent,
5 distributor or representative of Plaintiff or are in any
6 way connected with, affiliated with, approved by or
7 endorsed by Plaintiff. The acts prohibited include but
8 are not limited to, the following:

- 9 a) using the Restricted Marks in advertisements and
10 other promotional material unless the name
11 GRAFSTEIN & CO., or any name or any business in
12 which Carl Marcus engages or any other reference to
13 the sponsoring advertiser, is prominent and
14 conspicuous in comparison to the Restricted Marks
15 or any depiction of a ROLEX watch. With respect to
16 advertisements, other than in brochures, which
17 depict a ROLEX Watch, the GRAFSTEIN or other
18 sponsor name must be used at least twice in
19 proximity to the picture and in type no less than
20 1/4 the size of the watch depiction (measured in
21 vertical linear inches -- combined total for all
22 watches depicted). At least one use of the
23 GRAFSTEIN or other sponsor name must be no less
24 prominent than in the attached Exhibit 4 hereto
25 which also illustrates the minimum relative watch
26 picture to type size relationship and proximity.
- 27 b) utilizing, advertising or promoting the 800/24ROLEX
28 telephone number in any manner inconsistent with

Paragraph 3 f) below;

- c) utilizing, advertising or promoting the 800-247-6539 telephone number in any manner inconsistent with Paragraph 3 f) below;
- d) advertising or promoting any comparison between a "retail" price of a genuine ROLEX watch with Defendants' price of a used, modified or "custom" ROLEX watch in any manner inconsistent with any subparagraph of Paragraph 3 below; and
- e) using advertising, words or actions tending to suggest to the public that Defendant provides authorized service on ROLEX watches.

3. The parties have agreed that the restrictions of the Injunction specifically include the prohibitions and restrictions set forth below.

- a) In print advertising referring to any ROLEX watch:
 - (1) There will be no price comparisons unless the comparison is between a new fully genuine ROLEX watch offered by Grafstein, and Rolex's suggested retail price for the same model.
 - (2) Any use of a picture of a ROLEX watch in advertising must be no more prominent than any other portion of the ad and the Rolex Trademarks must not be enhanced or enlarged.
 - (3) Yellow Page or White Page telephone book advertising which identifies Grafstein as a "Rolex authorized repair service" or the like or which prominently displaying the Rolex

Trademarks must be cancelled forthwith.

(4) If a picture of a ROLEX watch is used or if Rolex watches are advertised exclusively in the advertisement, the disclaimer, "Not an Official Rolex Jeweler" must be included.

- b) With respect to Brochure advertising, including mailers, all of the restrictions for print advertising shall apply unless modified in this Consent Judgment with respect to brochures only. In addition, any reference to a ROLEX watch or the Rolex Trademarks in a brochure must also include the disclaimer, "Not an Official Rolex Jeweler" and a disclosure that the Rolex Warranty may be voided
- c) With respect to Point of Sale material:

- (1) Any reference to ROLEX on the office door, building register or external signs must be removed forthwith and not used at any time in the future.
- (2) If any point of sale advertising is used, at any location, it must originate with Grafstein and not be point of sale material prepared for or by Official Rolex Jewelers. There must also be an equally prominent point of sale display disclosing that Grafstein is not an Official Rolex Jeweler.
- (3) Neither the Rolex Trademarks nor a picture of a ROLEX watch will be used on any Grafstein business card.

business card.

- (4) Price comparison can be made in a brochure so long as comparison between a new fully genuine ROLEX watch offered by Grafstein, used ROLEX watch and any ROLEX watch including non-genuine ROLEX parts is made with full and adequate disclosure (e.g., new vs. used, new vs. non-genuine, used vs. non-genuine).

d) References to non-genuine ROLEX watches.

- (1) Any reference whether in print advertising, brochures, or point of sale material which includes a reference to a watch which is not a 100% genuine ROLEX watch must include an equally prominent disclaimer that non-genuine Rolex parts have been added or substituted.

The use of the term "custom" or "aftermarket" alone is not acceptable for this disclaimer.

e) Disclosures during sales and presentations.

- (1) Any sale involving a watch which does not include 100% genuine Rolex parts must be accompanied by an invoice presented to the customer at the time of sale specifically disclosing which parts are not genuine ROLEX parts.

- (2) All sales of any watch bearing a Rolex Trademark must be accompanied by a written disclosure that the Rolex warranty may be voided.

1 f) The 1-800-24ROLEX Telephone Number.

2 (1) Grafstein will immediately discontinue all
3 advertisements utilizing the 1-800-24ROLEX
4 number. Any advertisements, such as newspaper
5 advertisements which can be changed will be
6 changed.

7 (2) Grafstein will not adopt a telephone number,
8 including 800 telephone numbers, which
9 includes the numeric sequence 76539 whether or
10 not separated by other numbers.

11 (3) Grafstein shall be entitled to all referrals
12 from the 1-800-247-6539 telephone number until
13 January 1, 1991.

14 g) Future advertising will not contain any reference
15 to factory authorized service or factory
16 specifications or restoration to factory new
17 condition or the like. No reference will be made
18 to repairs performed by "Swiss or European or Rolex
19 trained" repair persons unless the same is
20 documented to be true on a current basis.

21 h) No reference in any advertising or oral sales
22 presentation will be made which in any way falsely
23 disparages any Rolex product, sales, or service.

24 i) To insure compliance with this Consent Judgment,
25 Rolex may have agents or investigators contact
26 Grafstein without prior notice by telephone or in
27 person, and determine the statements and
28 representations made by Grafstein in connection

1 with the sale or offer for sale of watches.

- 2 4. otherwise infringing the Restricted Marks;
3 5. unfairly competing with Plaintiff in any manner which
4 violates the law; and
5 6. causing a likelihood of confusion with injury to the
6 business reputation of Plaintiff, or dilution of the
7 distinctiveness of the Restricted Marks.

8
9 Defendants have agreed to and it is FURTHER ORDERED
10 that, Defendants and each of them shall comply with all of the
11 terms of this Consent Judgment And Permanent Injunction and the
12 Settlement Agreement between them. Failure to do so shall subject
13 Defendants to contempt proceedings and to any penalty or procedure
14 set forth in the Settlement Agreement.

15 ~~IT IS FURTHER ORDERED that, in order to insure~~
16 compliance with paragraph 2 of this Order, Defendants shall take
17 all steps necessary to ensure that no further publication occurs
18 of advertisements, brochures, point of sale materials, and the
19 like which violate the prohibitions of paragraphs 2 and 3 of this
20 Order (including but not limited to those exhibited to the
21 Complaint). Defendants shall document, in writing, all steps
22 taken to comply with the preceding sentence and submit the same to
23 the Court and Plaintiff's attorneys in a report signed under the
24 penalty of perjury and submitted within thirty (30) days from the
25 date this Order is entered.

26 IT IS FURTHER ORDERED that service by mail of a copy of
27 this Consent Judgment And Permanent Injunction addressed to
28 Defendants Roger Grafstein & Co., Inc. and Carl Marcus at 1851

1 East First Street, Suite 715, Santa Ana, California 92705 shall be
2 deemed sufficient notice under Rule 65, Federal Rules of Civil
3 Procedure. It shall not be necessary for Plaintiff to obtain a
4 receipt of the mail service.

5 The Court shall have continuing jurisdiction to enforce
6 this Consent Judgment And Permanent Injunction.

7 The Plaintiff and the Defendants, as between themselves,
8 shall each bear their own costs and attorney's fees.

9 The Court orders that the unserved Doe Defendants (Does
10 2-10) are dismissed without prejudice.

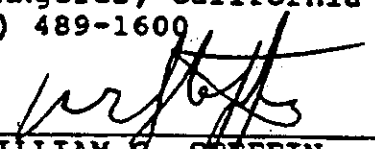
11
12 DATED this 24 day of July, 1990.

13 **ROBERT C. BONNER**

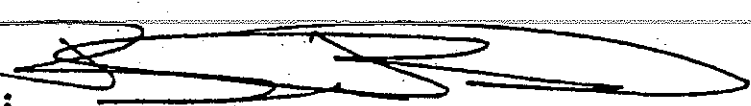
14 UNITED STATES DISTRICT JUDGE

1 Approved as to Form and Content:

2 LYON & LYON
3 A Partnership Including
4 WILLIAM C. STEFFIN
5 A Professional Corporation
6 JOHN A. RAFTER, JR.
7 611 West Sixth Street, 34th Floor
8 Los Angeles, California 90017
9 (213) 489-1600

10
11 By: 
12 WILLIAM C. STEFFIN
13 JOHN A. RAFTER, JR.
14 Attorneys for Plaintiff
15 ROLEX WATCH U.S.A., INC.

16
17 GIBNEY, ANTHONY & FLAHERTY
18 JOHN F. FLAHERTY
19 BRIAN W. BROKATE
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21 665 Fifth Avenue
22 New York, New York 10022
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24
25 By: 
26 Brian W. Brokate
27 Attorneys for Plaintiff,
28 ROLEX WATCH U.S.A., INC.

1 DAVID A. McDONNELL
2 One City Boulevard West
3 Suite 407
4 Orange, CA 92668
5 (714) 938-1010

6 By: David A. McDonnell
7 David A. McDonnell
8 Attorneys for Defendants
9 Roger Grafstein & Co., Inc.
10 Carl Marcus (Doe #1)

11
12
13
14 ROGER GRAFSTEIN & CO., INC.
15 1851 East First Street
16 Suite 715
17 Santa Ana, CA 92705

18 By: Roger Grafstein

19
20
21 ROSALINDA SANTIAGO
22 President
23 Roger Grafstein & Co., Inc.
24 1851 East First Street
25 Suite 715
26 Santa Ana, CA 92705

27 By: Rosalinda Santiago

28
29
30
31 CARL MARCUS (Doe #1)
32 c/o Roger Grafstein & Co., Inc.
33 1851 East First Street
34 Suite 715
35 Santa Ana, CA 92705

36 By: Carl Marcus

EXHIBIT 1

PUBLISHED
 Under Sec. 12 (c) 1946 Act
 APR 19 1955

SECOND RENEW
 MANUFACTURE OF ROLEX WATCHES,
 AEGLER LIMITED
 BIENNE, SWITZERLAND

AFIDAVIT SEC. 8
ACCEPTED

101,819. WATCHES, CLOCKS, PARTS OF WATCHES
 AND CLOCKS, AND THEIR CASES. Registered Jan-
 uary 12, 1918. Aegler, S. A. Renewed January 12,
 1943. to Aegler, S. A. Publisher des Montres Rolex &
 Chrono Gold A. Biennet, Switzerland, a corporation of
 Switzerland, by change of name.

AFIDAVIT SEC. 15
RECEIVED 9-6-61

Renewed for 3rd time for 20 years from January 12, 1975

UNITED STATES PATENT OFFICE.

AEGLER S. A., OF BIENNE, SWITZERLAND.

TRADE-MARK FOR WATCHES, CLOCKS, PARTS OF WATCHES AND CLOCKS, AND THEIR CASES.

101,819.

Registered Jan. 12, 1918.

Application filed June 8, 1914. Serial No. 75,904.

STATEMENT.

To all whom it may concern:

Be it known that AEGLER S. A., a company registered in Switzerland under Swiss law, and located in Biennet, Switzerland, doing business at Reberg Works, Hüheweg 82 and 82^a, Biennet, Switzerland, has adopted and used the trade-mark shown in the accompanying drawing, for watches, clocks, parts of watches and clocks, and their cases, in Class 37, Horological instruments.

The trade mark has been continuously used

in the business of the said company since the year 1912.

The trade mark is applied or affixed to the goods or to the packages containing same by placing thereon a printed label on which the trade mark is shown; it is also stamped directly on the goods.

AEGLER S. A.
HERMAN AEGLER,
Director.

ROLEX

DECLARATION.

Confederation of Switzerland. Canton and city of Berne.

HERMAN AEGLER, being duly sworn deposes and says that he is the director of the company, the applicant named in the foregoing statement; that he believes the foregoing statement is true; that he believes the said company is the owner of the trade mark sought to be registered; that no other person, firm, corporation or association, to the best of his knowledge and belief, has the right to use said trade mark in the United States, either in the identical form or in any such near resemblance thereto as

might be calculated to deceive; (that said trade mark has been registered in Switzerland on the 7th October 1918 No. 34251); that the description and drawing presented truly represent the trade mark sought to be registered; and that the facsimiles show the trade mark as actually used upon the goods.

HERMAN AEGLER.

Subscribed and sworn to before me this 20th day of May, 1914.

[L.S.] **GEO. HEIMROD,**
Consul of the United States of America at Berne, Switzerland.

Copies of this trade-mark may be obtained for five cents each, by addressing the "Commissioner of Patents, Washington, D. C."

CERTIFIED TO BE A TRUE COPY OF THE REGISTRATION WHICH IS IN FULL FORCE AND EFFECT, WITH NOTATION OF ALL STATUTORY ACTIONS TAKEN THEREON, AS DISCLOSED BY THE RECORDS OF THE UNITED STATES PATENT AND TRADEMARK OFFICE. SAID RECORDS SHOW TITLE TO BE IN:

Rolex Watch U.S.A. Inc., a NY cor

ATTEST

ATTESTING OFFICER

EXHIBIT 1

-16-

COMMISSIONER OF PATENTS AND TRADEMARKS

EXHIBIT 2

Registered Jan. 24, 1950

Registration No. 520,309

AFFIDAVIT SEC. 8
ACCEPTEDPRINCIPAL REGISTER
Trade-Mark

REVIEWED

Shuching, 1/14/19

Reopened for 20 years from Jan. 24, 1970

UNITED STATES PATENT OFFICE

Bulova Watch Company, Inc., New York, N. Y.

Act of 1946

App. Received February 10, 1948, Serial No. 572,440

President

(Statement)

Bulova Watch Company, Inc., a corporation duly organized under the laws of the State of New York, located and doing business at No. 630 Fifth Avenue, in the city of New York, State of New York, United States of America, has adopted and is using the trade-mark shown in the accompanying drawing, for WRISTBANDS AND BRACELETS FOR WATCHES MADE WHOLLY OR IN PART OR PLATED WITH PRECIOUS METALS, SOLD SEPARATELY FROM WATCHES, in Class 28, Jewelry and precious-metal wares, and presents herewith five specimens showing the trade-mark as actually used in connection with such goods, the trade-mark being applied to tag-labels affixed to the goods, and requests that the same be registered in the United States Patent Office on the Principal Register in accordance with the act of July 8, 1946.

The trade-mark was first used on January 8, 1948, and first used in commerce among the several States of the United States which may lawfully be regulated by Congress, on January 8, 1948.

Applicant is the owner of United States Trade-Mark Registration No. 222,284, registered January 26, 1937, renewed.

(Declaration)

Harry D. Kenehal, being duly sworn, deposes and says that he is vice president of Bulova Watch Company, Inc., the applicant named in the foregoing statement, that he believes that said corporation is the owner of the trade-mark which is in use in commerce among the several States of the United States, and that no other person, firm, corporation or association, to the best of his knowledge and belief, has the right to use such trade-mark in commerce which may lawfully be regulated by Congress either in the identical form thereof or in such near resemblance thereto as might be calculated to deceive, that the drawing and description truly represent the trade-mark sought to be registered, that the specimens show the trade-mark as actually used in connection with the goods, and that the facts set forth in the statement are true.

BULOVA WATCH COMPANY, INC.,
By HARRY D. KENEHAL,
Vice President.

CERTIFIED TO BE A TRUE COPY OF THE REGISTRATION WHICH IS IN FULL FORCE AND EFFECT, WITH NOTATION OF ALL STATUTORY ACTIONS TAKEN THEREON, AS ENCLOSURED BY THE RECORDS OF THE UNITED STATES PATENT AND TRADEMARK OFFICE. SAID RECORDS SHOW IT TO BE IN: Rolex Watch U.S.A., Inc., a corp. of NY.

Attest

JAN 4 1989
[Signature]
Attesting Officer

EXHIBIT 2

[Signature]
COMMISSIONER OF PATENTS
AND TRADEMARKS



EXHIBIT 3

United States Patent Office

657,756
Registered Jan. 28, 1968

AFFIDAVIT SEC. 8
ACCEPTED

PRINCIPAL REGISTER
Trademark

AFFIDAVIT SEC. 15
RECEIVED

3-11-63

Reg. No. 27,341, filed Apr. 2, 1967



Montre Rolex S. A. (Rolex Uhren Ag.), (Rolex Watch
Co. Ltd.), (Swiss corporation)
29, rue de Marche
Geneve, Switzerland

For TIMEPIECES OF ALL KINDS AND PARTS
THEREOF, in CLASS 27.
Filed Jan. 15, 1941; in commerce Jan. 1, 1941.

Renewed for 20 years from Jan. 28, 1978

CERTIFIED TO BE A TRUE COPY OF THE REGISTRATION
WHICH IS IN FULL FORCE AND EFFECT, WITH NOTATION
OF ALL STATUTORY ACTIONS TAKEN THEREON, AS DIS-
CLOSED BY THE RECORDS OF THE UNITED STATES PATENT
AND TRADEMARK OFFICE. SAID RECORDS SHOW TITLE
TO BE IN: Rolex Watch, U.S.A., Inc., a
NY corp.

Attest

JAN 7 1980
Acting Officer

COMMISSIONER OF PATENTS
AND TRADEMARKS

EXHIBIT 3
-18-

A6 THE WALL STREET JOURNAL TUESDAY, DECEMBER 12, 1989

"I was in the market for a NEW watch until I called GRAFSTEIN."

Walter Strow, captain with a major American airline, could easily afford a new watch, but he, as thousands before him, opted for the wiser choice...PRE-OWNED!



Switzerland's best kept secret is the fact that most great watches are made to last forever. GRAFSTEIN's European trained craftsmen meticulously restore classic, vintage, and contemporary timepieces to factory specifications. All are guaranteed, including parts and labor. Current models carry the exclusive GRAFSTEIN lifetime warranty.



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STATE OF CALIFORNIA, COUNTY OF

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_____ and know its contents.

☒ CHECK APPLICABLE PARAGRAPH

☐ I am a party to this action. The matters stated in the foregoing document are true of my own knowledge except as to those matters which are stated on information and belief, and as to those matters I believe them to be true.

☐ I am ☐ an Officer ☐ a partner _____ of _____

a party to this action, and am authorized to make this verification for and on its behalf, and I make this verification for that reason. ☐ I am informed and believe and on that ground allege that the matters stated in the foregoing document are true. ☐ The matters stated in the foregoing document are true of my own knowledge except as to those matters which are stated on information and belief, and as to those matters I believe them to be true.

☐ I am one of the attorneys for _____ a party to this action. Such party is absent from the county of aforesaid where such attorneys have their offices, and I make this verification for and on behalf of that party for that reason. I am informed and believe and on that ground allege that the matters stated in the foregoing document are true.

Executed on _____, 19____, at _____, California.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

Type or Print Name

Signature

PROOF OF SERVICE

1013A (3) CCP Revised 3/88

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I am employed in the county of: Los Angeles, State of California.

I am over the age of 18 and not a party to the within action; my business address is: LYON & LYON
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On July 20, 1990, I served the foregoing document described as _____

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[UNDER SEAL] ("Lodged" 7/20/90)

_____ on Defendant in this action

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Declaration of Donald R. Andersen

Exhibit B

(a true and correct copy of the transcript of the testimony of J. Thomas McCarthy in the matter of *Rolex Watch U.S.A., Inc. v. Michel Co., et al.*, U.S. District Court for the Southern District of California Civil Case No. 96-0805-H (CM))

1 UNITED STATES DISTRICT COURT
2 SOUTHERN DISTRICT OF CALIFORNIA
3

4 ROLEX WATCH, U.S.A., INC.,) Case No. 96-0805-H(CM)
5 Plaintiff,) San Diego, California
6 vs.) Thursday,
7 MICHEL CO., et al.,) December 12, 1996
8 Defendants.) 9:00 a.m.
9) VOLUME III

10 TRANSCRIPT OF TRIAL
11 BEFORE THE HONORABLE MARILYN L. HUFF
12 UNITED STATES DISTRICT JUDGE

13 APPEARANCES:

14 For the Plaintiff:

JOHN SUMNER, ESQ.

BRIAN BROKATE, ESQ.

BETH FRENCHMAN, ESQ.

DAVID KANE, ESQ.

SIEGRUN KANE, ESQ.

17 For the Defendant:

JANICE BROWN, ESQ.

CHARLES GOLDBERG, ESQ.

LAURA ROPPE, ESQ.

20 Transcript ordered by:

JOSEPH SULLIVAN, ESQ.

21 Court Recorder:

Nancy Cablay
United States District Court
940 Front Street
San Diego, California 92189

24 Proceedings recorded by electronic sound recording;
25 transcript produced by transcription service.

MCCARTHY - DIRECT

IV-17

1 that case, post-purchase confusion of those who see other
2 people wearing non-genuine Levi Strauss pants with the tab
3 on the seat of the pants was found to be an element of the
4 kind of likelihood of confusion that occurs in these
5 cases.

6 Q Even though it's after the point of sale.

7 A That's correct.

8 (Pause.)

9 Q I would like to ask you now about Defendants' sale of
10 non-Rolux replacement parts separately -- that is, not
11 mounted on watches, individual bezels or dials of
12 bracelets.

13 The assumptions here are the following: Defendants
14 sell non-Rolux bezels, dials and bracelets made to fit
15 Rolux watches. Rolux replacement parts do not fit other
16 watches without adjustment. Defendants' non-original,
17 non-Rolux parts do not bear any markings to indicate their
18 source. Defendants' non-Rolux parts use diamonds inferior
19 in quality to Rolux diamonds, and Rolux itself does sell
20 genuine replacement parts for each of these -- in each of
21 these categories.

22 My question is this: Based on these assumptions,
23 what does Plaintiff need to show to establish Defendants'
24 liability for infringement?

25 A In that circumstance, if the Defendant knows or has

McCARTHY - DIRECT

IV-18

1 reason to know that it is selling to people who are using
2 these parts to put together a final product which contains
3 the Rolex trademark which essentially would be a product
4 of the type that I've discussed earlier in my testimony,
5 only now other people are doing it with parts sold by the
6 Defendant, that, if the Defendant knows or has reason to
7 know that that's what his purchases are doing, that that
8 is a trademark infringement.

9 Q What's the theory of liability in that situation?

10 A Well, it's called contributory trademark
11 infringement.

12 Q Under what conditions, if any, is it okay -- is it
13 permitted -- to sell separately an individual replacement
14 part?

15 A I am certainly willing to admit the existence of what
16 might be called a personal-use exemption. I think a
17 person who, for example, owns a Rolex watch can go to a
18 jeweler and certainly have it repaired or to ask to have
19 it upgraded with non-Rolux parts.

20 There, of course, is the danger of post-purchase
21 confusion, but I'm willing to admit because I think most
22 people would feel that -- intuitively, that a person is
23 entitled to do that with their own property, and therefore
24 I think that the Defendant should be allowed to sell those
25 non-Rolux parts, as I understand it, intended for use only

McCARTHY - DIRECT

IV-19

1 with Rolex watches, only if there is some indication from
2 the buyer that this will fit within the personal-use
3 exemption and, as I've stated in my expert report, I think
4 that requires a written statement from the jeweler who is
5 buying that -- that this is at the request of an owner of
6 the watch.

7 (Pause.)

8 Q Professor McCarthy, I now want to turn to the subject
9 of Defendants' use of this crown-like device on certain of
10 its bracelets, and I will leave my mike here for a minute
11 to hand you Plaintiff's Exhibit 1 which is a genuine Rolex
12 bracelet with the true crown device on it and Plaintiff's
13 Exhibit 24 which is Defendant's bracelet with this crown-
14 like device.

15 (Witness proffered exhibit.)

16 BY MR. KANE:

17 Q The assumptions as to those two articles are the
18 following: Defendants' bracelets bear no markings showing
19 Defendants as the source; Defendants' bracelets are made
20 to fit Rolex watch heads; Defendants' bracelets are
21 substantially identical in appearance to Rolex bracelets;
22 Defendants have admitted that the Rolex crown design is a
23 strong mark; Defendant himself describes this design as a
24 crown, and my questions are these: In your opinion, is
25 Defendants' use on PX-24 likely to cause confusion?

MCCARTHY - CROSS

IV-48

1 A Yes.

2 Q If Plaintiff had not shown the likelihood of
3 confusion, they would (sic) be entitled to any of those
4 remedies that you have on pages 9 and 10, would they?

5 A That's correct.

6 Q You also assume that Plaintiff also showed or also
7 proved that there were trademarks at issue with respect to
8 the items at issue -- correct? For example
9 (indiscernible). I see you're frowning at my question.

10 The bracelet -- you assumed that the bracelet -- that
11 Rolex had a trademark with respect to the trademark and
12 that Rolex had also shown that there's a likelihood of
13 confusion with respect to that bracelet for you to make
14 your recommendation as to what disclosure should be.

15 A No, I didn't assume that the bracelet per se was
16 trademarked. I assumed that a non-Rolex bracelet which is
17 incorporated as part of a Rolex watch with the word,
18 "Rolex" on the dial becomes an infringement.

19 Q Okay, well, let's talk about the bracelets that
20 aren't attached, okay? Because your disclosure deals with
21 those, too, right?

22 A Yes.

23 Q With those that aren't attached to the watch, did you
24 make an assumption that Rolex had proved (sic) that the
25 brands are trademarked?

McCARTHY - CROSS

IV-49

1 A I made the assumption as to the Defendants' sale of
2 non-genuine Rolex bracelets to others -- I assume that's
3 what you're talking about -- separate, that the Defendant
4 had reason to know that his purchasers were going to
5 incorporate those as part of a watch which bore the Rolex
6 trademark.

7 Q You answered a different question. My question is,
8 when you made the -- when you made the determination of
9 what the proper disclosure would be for that bracelet, did
10 you make a determination that Rolex's bracelet was
11 trademarked?

12 A No, I didn't have to.

13 Q So, you did not make that determination.

14 A It's not necessary.

15 (Pause.)

16 Q You also assumed that the likelihood of confusion had
17 been demonstrated.

18 A Yes.

19 (Pause.)

20 Q Now, I'd like you to turn to page 9. I'm going to
21 ask you about another case. Using a report like this in
22 another case involving bracelets, replacement
23 bracelets -- right?

24 A Another case?

25 Q Another case where Rolex is the plaintiff.

MCCARTHY - REDIRECT

IV-60

REDIRECT EXAMINATION

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BY MR. KANE:

Q Professor McCarthy, does the absence of evidence of actual confusion by purchasers of Defendants' altered watches determine whether there is likely confusion?

A No. No trademark owner has the obligation to prove instances of actual confusion.

Q What must he prove in order to get an injunction as an alternative?

A He must prove that there is a likelihood of confusion.

Q When you stated on direct that Defendants should not be permitted to sell altered watches with these non-Rolux bezels and dials, what was the basis of your opinion?

A The basis of my opinion was that there would be likelihood of confusion caused by the sale of such articles that are essential and integral to a watch.

Q Now, at the close of your direct, you mentioned the Intel case where in your -- I believe you characterized the semiconductor chip as having been marked to indicate it was a upgraded, genuine Intel chip; is that --

A Yes, I mentioned that case.

Q Was that upgrading of that chip held to be a counterfeit?

A It was held to -- yes, the Ninth Circuit Court of

Declaration of Donald R. Andersen

Exhibit C

(a true and correct copy of the transcript of the testimony of J. Thomas McCarthy in the matter of *Rolex Watch U.S.A., Inc. v. Robert Meece*, U.S. District Court for the Northern District of Texas Civil Case No. 96-0805-H (CM))

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214-458-9500

SHANTEL BEHELER, CSR

METRO 817-226-1664

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF TEXAS
DALLAS DIVISION

ROLEX WATCH, U.S.A., INC. (

CIVIL ACTION NO.

3-95-CV-1058-T

VERSUS (

ROBERT MEECE d/b/a AMERICAN
WHOLESALE JEWELRY (

February 10, 1997

STATEMENT OF FACTS
VOLUME 1-B

BEFORE THE HONORABLE ROBERT MALONEY

UNITED STATES DISTRICT JUDGE

U.S. DISTRICT COURT
NORTHERN DISTRICT OF TEXAS

FILED

FEB 21 1997

NANCY DOHERTY, CLERK

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1
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Court Reporter:

SHANTEL BEHELER, CSR No. 3031
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Arlington, Texas 76012

Proceedings reported by mechanical stenography, transcript
produced by computer.

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6 1 MR. MCGOWAN: Pass the witness.

2 MR. NACOL: Just one question, Your Honor, on
3 this topic.

4 RECROSS-EXAMINATION

5 BY MR. NACOL:

6 Q. Mr. Meece, whether you sent it before or after, have you
7 ever sent any price list out without the disclaimer in a
8 separate document on the catalog or in some fashion, have you
9 ever solicited in violation of the injunction?

10 A. No, sir.

11 MR. NACOL: That's all.

12 THE COURT: Anything further of this witness at
13 this time?

14 MR. MCGOWAN: No, sir.

15 THE COURT: The witness may step down.

16 MR. MCGOWAN: Your Honor, we call Professor Tom
17 McCarthy, and Mr. David Kane will handle the direct
18 examination of Professor McCarthy.

19 (At this time Professor McCarthy was sworn in.)

20 PROFESSOR THOMAS MCCARTHY, (Sworn)

21 DIRECT EXAMINATION

22 BY MR. KANE:

23 Q. Professor McCarthy, how long have you been teaching?

24 A. I have just finished 30 years of teaching at the
25 University of San Francisco Law School.

1 Q. And what subjects have you taught?

2 A. This semester I am teaching a course in copyright law and
3 advance seminar in intellectual property law. Last semester I
4 taught a course introduction to intellectual property, which
5 covered trademarks, trade secrets and an introduction to
6 patents, as well as a course in anti-trust law. In years past
7 I have taught courses in civil procedure, equitable remedies
8 and consumer law.

9 Q. Do you have any publications?

10 A. I do.

11 Q. What are they?

12 A. I have three books that are currently in print. I have a
13 ~~five volume treatise on trademarks of unfair competition law~~
14 published by Clark Borgman Publishers. I have a two-volume
15 book on the rights of publicity and privacy, also published by
16 Clark Borgman. And I have a one-volume reference book called
17 McCarthy's Desk Encyclopedia of Intellectual Property.

18 Q. What is the title of that five-volume treatise?

19 A. The official title is McCarthy On Trademarks And Unfair
20 Competition.

21 Q. Has it been mentioned in any court decisions?

22 A. Yes, I am pleased to report that it has been cited as
23 authority or relied upon in over 800 cases.

24 Q. Have you been associated with any professional groups
25 involved in writing trademark and/or unfair competition law?

1 A. I have, yes.

2 Q. What are they?

3 A. Well, a number of groups, two of which -- a most prominent
4 one is my service on the trademark review commission created
5 by the United States Trademark Association. The review
6 commission put together the package of legislative materials
7 that eventually became the 1989 Trademark Revision Act.

8 The second service I performed was on an advisory board to
9 the American Law Institute, which drafted the restatement of
10 unfair competition, which was published in 1995.

11 MR. KANE: Your Honor, plaintiff offers
12 Professor McCarthy as an expert qualified in practice, policy
13 and economic trademarks.

14 MR. NACOL: No objection, Your Honor.

15 THE COURT: You may proceed with the testimony.

16 BY MR. KANE:

17 Q. Professor McCarthy, what general considerations are looked
18 to in fashioning injunctive relief from trademark cases?

19 A. In my view, injunctive relief revolves around the two
20 basic policies of trademark law, the first of which is to
21 protect the public from the likelihood of confusion, and the
22 second is to protect the good will and reputation of trademark
23 owners.

24 Q. Professor, I would like you to make a few assumptions, if
25 you will, and then I will ask you questions based on these

1 assumptions. The assumption are these: Assume that defendant
2 buys new Rolex watches and replaces the original watch bezels
3 on these watches with non-Rolex diamond bezels.

4 The bezel serves to preserve water resistant
5 characteristic of the watch. If a bezel is not properly
6 constructed to precisely fit the watch, it could allow water
7 to leak into the case, which could ruin the movement.

8 Defendant also adds a refinished Rolex dial. The
9 refinishing process involves these steps: Removing the Rolex
10 trademark's hands and markers from the dial; applying a new
11 finish to the dial; drilling holes and adding diamonds to the
12 dial; replacing the trademark's markers and hands on the dial
13 and then remounting the dial back on the case in the movement.

14 The addition of refinished dials may affect the operation
15 of a Rolex watch. If the diamonds are not properly set, they
16 may interfere with the clearance of the hands or they may
17 protrude into the back of the dial and scratch the date
18 mechanism which shows the date through the window.

19 Rolex will no longer guarantee or service Rolex watches
20 which contain non-Rolex bezels or dials.

21 Defendant sells these altered products under the mark
22 Rolex.

23 Based on these assumptions, what relief is appropriate
24 regarding defendant's watches sold under Rolex trademarks with
25 non-Rolex bezels and non-Rolex dials?

1 MR. NACOL: Objection, Your Honor. That
2 hypothetical includes several factors that are not before you
3 at this time or at the preliminary hearing.

4 THE COURT: Sustained.

5 MR. KANE: Your Honor, each one of the
6 assumptions is already in the record of this case, either at
7 the preliminary injunction hearing or at the Meece deposition
8 excerpts relied upon today, and I could read a cite into the
9 record for each one of those.

10 THE COURT: I think you are going to have to do
11 that, because I don't recall all of those being in the record.

12 MR. KANE: I would be happy to do so.

13 Assumption one: Defendant buys new Rolex watches and
14 replaces the original Rolex bezels on these watches with
15 non-Rolux diamond bezels.

16 This was in the Meece deposition transcript at 113 and
17 114.

18 THE COURT: Where is that? I don't have that.

19 MR. KANE: That is a listed exhibit.

20 MR. MCGOWAN: Your Honor, yes, sir, it is a
21 listed exhibit, either 38 or 39, and it was admitted into
22 evidence, and also we filed our deposition excerpts last week.

23 MR. NACOL: If it please the Court, I think I
24 was going to be given an opportunity to review those excerpts
25 to provide with Your Honor's request that I tell you whether I

1 would or would not object to it.

2 MR. MCGOWAN: We can read them in right now, but
3 I gave them to you last week. We did offer to read it in.

4 MR. KANE: And we do offer to read it in.

5 THE COURT: Why don't you identify which
6 portions of your assumptions come from the deposition, then I
7 will admit the testimony subject to the acceptance of the
8 deposition into evidence, because I still want counsel to have
9 the opportunity to object to it. So, if his objections are
10 sustained on any of your assumptions, your assumptions are
11 going to go out the window.

12 MR. NACOL: I know this gentleman is on a clock
13 and needs to get back. I have no objection.

14 MR. MCGOWAN: Your Honor, the one problem we
15 have is we asked per the Court's ruling of the local rules, we
16 gave the deposition excerpts last week.

17 THE COURT: But what does that have to do with
18 it? I still have to rule on the matters. Just because you
19 provided the other side with deposition excerpts doesn't put
20 it into evidence in the case.

21 MR. KANE: I think it's just the order of proof
22 here, Your Honor. If we had expected counter designations, if
23 any, to come here before the trial began, then we were ready
24 to read it all in and have Your Honor rule, then we could ask
25 Professor McCarthy based on the record which is then in

1 evidence. Because we didn't get counter designations and now
2 they are reserving their right to do so at some future time --

3 THE COURT: They don't have any right to
4 reserve -- we are not talking about counter designations, we
5 are talking about objections.

6 MR. KANE: Which would have to come right now?

7 THE COURT: Whenever it's being offered, that's
8 right.

9 MR. KANE: We are offering it right now, those
10 deposition excerpts.

11 MR. MCGOWAN: Yes, sir, and we brought that up
12 this morning and we can read them right now into the record,
13 if that's fair.

14 THE COURT: You may have to do that. You didn't
15 make it clear to me this morning that that was going to
16 include matters -- that your witness's testimony was going to
17 be contingent on that evidence being in. So, that's why I
18 said, well, I can read it later if that's it, but I didn't
19 know that your witness was going to base that -- since you had
20 Mr. Meece on the stand, it just seemed to me that you would
21 ask him many of those questions that you felt you needed for
22 your assumption.

23 MR. MCGOWAN: Your Honor, would it be acceptable
24 if Professor McCarthy steps down and we will read the
25 depositions in?

1 THE COURT: All right.

2 THE WITNESS: Do you want me to exclude me from
3 the courtroom?

4 THE COURT: Yes, sir.

5 MR. MCGOWAN: Your Honor, would you prefer that
6 I read both the questions and the answers or we can put Mr.
7 Sullivan on the stand and he can be Mr. Meece?

8 THE COURT: Generally it's easier if you have
9 someone. You can ask the questions and let someone else
10 respond with the answers, otherwise it's hard to tell where a
11 question ends and an answer begins.

12 MR. MCGOWAN: Mr. Sullivan, I am handing you
13 ~~Plaintiff's Exhibit 39~~, which is the oral deposition of Robert
14 Meece.

15 I am sorry, we need to hand you, I think, the
16 confidential deposition volume also, and I will tell you the
17 court reporter separated it into two volumes.

18 Mr. Sullivan, if you could open your main volume to
19 Page 24.

20 MR. SULLIVAN: Yes.

21 MR. MCGOWAN: Lines 7 through 11. For purposes
22 of the trial today, you are Mr. Robert Meece.

23 MR. SULLIVAN: Yes, sir.

24 "Q. Am I correct that to this day you still sell some
25 authentic Rolex watches?

6
1 MR. MCGOWAN: That's the end of our reading from
2 the preliminary injunction transcript.

3 MR. KANE: Your Honor, with your permission, we
4 will bring the professor back in.

5 MR. NACOL: May it please the Court, my memory
6 is not what it once was. If they could repeat the predicate
7 again.

8 THE COURT: Are you talking about the
9 assumptions?

10 MR. NACOL: Yes.

11 PROFESSOR THOMAS MCCARTHY, (Sworn)

12 DIRECT EXAMINATION cont'd

13 BY MR. KANE:

14 Q. Professor, I will repeat the assumptions that I put to you
15 beforehand.

16 Number one, defendant buys new Rolex watches and replaces
17 the original Rolex bezels on these watches with non-Rolex
18 diamond bezels.

19 The bezel serves to preserve the water-resistant
20 characteristic of the watch.

21 If a bezel is not properly constructed to precisely fit
22 the watch, it could allow water to leak into the case, which
23 could ruin the movement.

24 Defendant also adds a refinished Rolex dial. The
25 refinishing process involves the steps removing the dial from

16 1 the watch, removing the Rolex trademark's hands and markers,
2 applying a new finish to the dial, drilling holes and adding
3 diamonds to the dial, replacing trademarks, markers and hands
4 on the dial, and replacing the dial into the watch.

5 The addition of refinished dials may affect the operation
6 of the Rolex watch. If the diamonds are not properly set, the
7 diamonds may interfere with the clearance of hands or may
8 protrude into the back of the dial and cause a problem with
9 the calandar mechanism.

10 Rolex will no longer guarantee or service watches which
11 contain non-Rolex bezels and dials.

12 Defendant sells the altered products, the altered Rolex
13 watches, that is, under the trademark Rolex.

14 My question, based on these assumptions, is this: What
15 relief is appropriate regarding defendant's watches sold under
16 Rolex trademarks with non-Rolex bezels and non-Rolex dials?

17 MR. NACOL: No objection.

18 A. In order to serve the two goals of trademark law that I
19 mentioned earlier, in my view an absolute injunction is
20 necessary because the sale of new and reconstructed watches
21 involves, in my view, an essential and basic change to a
22 necessary integral element of the watch in such a way that to
23 label it as a Rolex watch would be deceptive and misleading
24 and likely to cause confusion.

25 Q. Is Rolex still controlling the quality of the altered

16 1 product?

2 A. Well, they are not, and it is a right and a duty of every
3 trademark owner to control the nature and quality of goods
4 that are sold under its trademark.

5 Q. What connection does the name Rolex have with this
6 product?

7 A. The only connection is that at one time part of the
8 product was manufactured by the Rolex watch company, but the
9 final product, as sold by the defendant, has not been
10 manufactured under the control of the Rolex watch company, nor
11 has the Rolex company had the opportunity to control the
12 nature and quality of the goods.

13 MR. NACOL: I am sorry, to control what, sir?

14 THE WITNESS: To control the nature and quality
15 of the goods.

16 BY MR. KANE:

17 Q. Is there any case support for the grant of an absolute
18 injunction in this situation?

19 A. There is, yes.

20 Q. What is that?

21 A. In one instance someone took a Bullova watch movement and
22 took them out and put them in a non-Bullova casing studded
23 with diamonds, and it was held there that an absolute
24 injunction was necessary, that disclosure was not appropriate,
25 was not adequate to protect the public from confusion.

6 1 Q. Would a permanent marking on defendant's altered Rolex
2 watches solve this problem?

3 A. I think not. A permanent marking or disclosure of any
4 type is not appropriate because this case does not, as I
5 understand it, involve the repair or the reconstruction or
6 restoration of the product. Rather, in your question you
7 asked about new watches, which involve no aspect of repair.

8 Q. What is the significance of the fact that defendant has
9 admitted that the quality of its non-Rolux parts are not as
10 good as Rolex quality?

11 A. Well, it indicates that in this particular case the damage
12 to the trademark owner is not merely theoretical or
13 hypothetical, but in fact the defendant's goods are inferior,
14 although that is not necessary for the plaintiff to prove.

15 Q. That was my next question. Is a lesser quality, which
16 happens to be of record here, necessary to support the
17 absolute prohibition which you have commented on?

18 A. No, it is not, because as I just indicated, the trademark
19 owner has the right, as well as the duty, to control the
20 nature and quality of goods that are put out under that
21 trademark owned by that trademark owner. And if that
22 opportunity is missing, then the product is not genuine.

23 Q. I would like to turn now to additional assumptions which
24 are supported by the record in this case.

25 First of all, that defendant sold bracelets that look

1 similar in appearance to Rolex bracelets;

2 That these bracelets are designed, for the most part, to
3 fit Rolex watches;

4 That the quality of defendant's bracelets are not as good
5 as Rolex quality;

6 That the consumer, the ultimate wearer of the watch,
7 wouldn't be able to trace defendant's bracelets back to
8 defendant.

9 In these circumstances, will likely confusion be prevented
10 by disclosing on a hang tag or an invoice to the direct
11 purchaser, the jeweler, that bracelets do not originate with
12 Rolex and that defendants are not affiliated with Rolex?

13 A. I think that in that instance a hang tag is inadequate to
14 protect against confusion.

15 Q. And the invoice disclosure?

16 A. Invoice would be similarly inadequate.

17 Q. What is the reason for that view?

18 A. Because neither of those disclosures go with the product
19 and they fail to reach others who could be confused by the
20 trademark on the product. Others would include downstream
21 purchasers, donees, people who are given the watch as a gift,
22 and simply viewers, people who see others wearing the watch or
23 band.

24 Q. As to these replacement bracelets not made by Rolex, are
25 you aware of any notice that would be sufficient?

7
1 A. Well, in my view some type of permanent marking with a
2 trademark indicating source on the band itself would be
3 necessary to go with the product.

4 Q. Can you give an example of a situation where a permanent
5 marking was required?

6 A. The leading example would be in the Champion Spark Plug
7 case where the Supreme Court indicated that in a situation
8 involving repair and the restoration of used spark plugs was
9 necessary to permanently stamp and bake the words "used" or
10 "repaired" into the spark plugs themselves, as well as the
11 spark plugs being entirely repainted in an aluminum color,
12 that that was necessary to protect against confusion in that
13 instance.

14 Q. In the case of these non-Rolux replacement bracelets, how
15 do you envision the permanent marking being affixed?

16 A. Ideally to protect those others that I mentioned,
17 downstream purchasers, donees and viewers, a marking of some
18 trademark on the band, outer appearance of the band would be
19 necessary, but I understand that that could injure the ability
20 to sell the product in that it might have some aesthetic
21 detriment and I would be willing to take a second best
22 position and permit the engraving to be on the clasp, which is
23 visible when the band is opened.

24 Q. Let me now move on to a different series of assumptions as
25 follows:

1 Defendant sell non-Rolux bezels, dials, and bracelets
2 made to fit Rolex watches.

3 Defendant's non-Rolux replacement parts do not fit
4 other watches without adjustment.

5 Defendant's non-Rolux parts are not marked to
6 indicate American Wholesale, that's the defendant, as their
7 source.

8 Rolex itself does sell genuine replacement parts in
9 each of these categories.

10 My question is, what does plaintiff need to show to
11 establish defendant's liability for infringement through sale
12 of these parts?

13 A. In my view, the plaintiff would have to show that the
14 defendant either knew or had reason to know that his
15 purchasers were using the parts to construct or reconstruct
16 watches which had the Rolex trademark on them.

17 Q. What's the theory of liability in that situation?

18 A. Well, it's called contributory infringement of trademark.

19 Q. Under what conditions, if any, is it okay to sell
20 separately an individual placement part?

21 A. Excuse me, could you repeated the question?

22 Q. Under what circumstance, if any, is it proper to sell
23 separately an individual replacement part?

24 A. Although in theory one could take the position that under
25 no circumstance should such parts be sold because of the

1 opportunity and likelihood of confusion of the others that I
2 mentioned in the public, I am willing to admit the existence
3 of why it might be called a personal use exemption; that is, a
4 person who in the course of repairing or restoring a used
5 watch, I believe, should have the opportunity at the same time
6 to upgrade it to a higher level or higher model if they wish,
7 but I think there has to be some documentation, some proof of
8 that flowing to the supplier.

9 Q. I now want to turn to a series of crown designs that have
10 come in the record of this case.

11 Your Honor, I think Plaintiff's Exhibit 16 is a Rolex
12 watch that may be over on that side of the courtroom, a gold
13 President watch.

14 Q. Professor McCarthy, I show you Plaintiff's Exhibit 16 and
15 we will have questions about it shortly, also Plaintiff's
16 Exhibit 3, which is one of defendant's brochures, and then I
17 need Plaintiff's 66. This bracelet is Plaintiff's Exhibit 66.

18 First of all, the assumptions, Professor McCarthy:

19 Defendant's bracelets bear no markings to show defendant's
20 American Wholesale Jewelers as the source.

21 Defendant's bracelets are made to fit Rolex watch heads.

22 Defendant's bracelets are similar in appearance to Rolex
23 bracelets.

24 The Rolex Crown design mark is the subject of an
25 incontestable registration and has been used for over 35

1 years.

2 An example of it is there before you on Plaintiff's
3 Exhibit 16, the men's gold watch.

4 Defendant's use is also before you in the brochure, PX 3,
5 where you see something we have referred to as a five-prong
6 device. Do you see that?

7 A. Yes, I do.

8 Q. And then a more recent use by defendant is in Plaintiff's
9 Exhibit 66, the small lady's bracelet, which has a four-sided
10 kind of a truncated crown device outlining the crown.

11 My question is this: Is defendant's use likely to cause
12 confusion?

13 A. In my view, both of the defendant's uses are likely to
14 cause confusion.

15 Q. Is your opinion changed by a detailed side-by-side
16 comparison of the examples of the two crowns I have given you?

17 A. I don't think it's proper to make a detailed side-by-side
18 comparison. That's not the way consumers would view them in
19 the marketplace, and that's the object of trademark law, to
20 try to reproduce the marketplace in the courtroom to the
21 greatest extent we can.

22 Q. In judging the similarity of those crown symbols, is
23 consumer recollection of plaintiff's mind expected to be
24 perfect?

25 A. Well, of course not. A consumer may well have a general

18 1 or vague recollection of the crown design and carry that with
2 them and see other similar designs perhaps at a distance and
3 be confused.

4 Q. Will consumer reactions be affected by the fact that
5 defendant's design is used on a product which looks similar to
6 the Rolex product?

7 A. Well, of course. We have to compare the conflicting
8 designs or trademark logos as they appear on the product in
9 the context in which people actually see them on the watch
10 band, and it appears, as far as I can tell, at the identical
11 same location on a very similar watchband.

12 Q. I ask you now about possible price differences and, in
13 particular, ask you to make the assumption that defendant's
14 bracelet bearing the crown-like device, it's priced
15 considerably less than the comparable Rolex bracelet. Is that
16 a defense?

17 A. No, that is not a defense. That is not even a defense to
18 a charge of criminal counterfeiting.

19 Q. Why is that so?

20 A. Because even though the initial purchaser may know that
21 this is a counterfeit -- for example, the purchaser of a \$25
22 Rolex watch knows that it is not a genuine Rolex, but that
23 says nothing about the other members of the public that have
24 indicated in terms of post-purchase confusion of downstream
25 purchasers, donees and viewers.

8 1 Q. Let me ask you now about a different situation, still
2 involving bracelets, and make these assumptions if you will.

3 Defendant sell a non-original replacement bracelet with a
4 genuine Rolex clasp on it. That clasp bears the Rolex name
5 and the Rolex Crown device.

6 Also assume that at least some cases a customer supplies
7 the genuine Rolex clasp. Assume it's in all cases. The
8 customer supplies the genuine Rolex clasp which defendant
9 installs on a non-Rolux bracelet.

10 My question is this: Does the fact that the customer
11 furnish the clasp and requested the installation avoid
12 liability?

13 A. No, it does not.

14 Q. Why is that so?

15 A. For the same reason that the person who purchases a
16 counterfeit knowing that it is a counterfeit, it does not form
17 a defense to a charge of infringement. The person who wants
18 to create a counterfeit knows it is not, but that creates
19 post-purchase confusion, nonetheless.

20 Q. Would you consider defendant's altered Rolex watches with
21 non-original bezels, dials and/or bracelets to be counterfeit
22 within the meaning of 15 U.S.C. 1117?

23 A. I do.

24 Q. Why is that?

25 A. Because it by definition contains a mark which is

1 identical to a genuine Rolex mark, and a counterfeit is a
2 product which contains a mark which is either identical to or
3 substantially indistinguishable from a genuine mark. Here the
4 mark is identical.

5 Q. Is selling to people who no the product contains
6 non-original parts a defense?

7 A. No, it is not.

8 Q. Does the fact that defendant's use of the original marks,
9 not copy marks, prevent a finding of counterfeit?

10 A. It doesn't prevent a finding of counterfeit. In my
11 opinion, it does not make it less of a counterfeit; it makes
12 it more of a counterfeit, because it makes it easier to pass
13 off as the original because it is in fact a mark that came

14 from the Rolex watch company, but it is not a Rolex watch.

15 Q. Does the fact that diamonds were used in defendant's
16 operations, thus resulting in a more expensive product, affect
17 the determination of whether the product is a counterfeit?

18 A. Well, in my view, it makes it more likely that it does
19 fall in the category of being a counterfeit because the
20 addition of diamonds creates the false impression that this is
21 a high-level diamond studded Rolex watch produced by the Rolex
22 Watch Company, and the Rolex Watch Company, it's my
23 understanding, does produce such high-level diamond studded
24 watches, and it is not from the Rolex Watch Company.

25 Q. Are you familiar with upgrading situations previously

9 1 decided by the Courts?

2 A. The precedent closest in my mind to this situation is
3 where someone took slower, less expensive ^{Intel} entailed branded
4 semiconductors, changed the model designation to make it
5 appear that these were faster, more expensive intel
6 semiconductors and was held to be, in that instance, both
7 trademark infringement and trademark counterfeiting.

8 Q. As to monetary relief, Professor McCarthy, assuming that
9 the altered Rolex watches are considered counterfeit, what
10 monetary relief is Rolex entitled to?

11 A. In that instance, trouble damages or trouble profits and
12 attorney fees, absent extenuating circumstances, would be
13 mandatory.

14 Q. Do you need to show defendant's intent to deceive to
15 qualify for a mandatory award?

16 A. No, intent to deceive is not required. What is required
17 is an intent to deal in the goods knowing that they are
18 counterfeit goods.

19 Q. Assuming the altered watches are not counterfeit, must the
20 trademark owner prove damage or lost sales to recover
21 plaintiff's profits for infringement?

22 A. Well, not to recover profits. To recover the profits, the
23 plaintiff would have to show unjust enrichment and a
24 deliberate and knowing infringement.

25 MR. NACOL: Your Honor, if it please the Court,

1 I have no objection to the demeanor of the gentleman, but this
2 is like a CLE class. I object to opinions are not relevant to
3 anything specifically in this inquiry raised by the facts for
4 which a predicate has been established.

5 THE COURT: Overruled.

6 BY MR. KANE:

7 Q. As to the attorneys' fees element of a possible monetary
8 award, what must plaintiff prove?

9 A. Prove that it's an exceptional case.

10 Q. What is an exceptional case?

11 A. Exceptional case would involve some form of knowing and
12 deliberate infringements.

13 Q. In assessing intentional infringement, would you consider
14 any of the following conduct to be relevant:

15 One, defendant's past use of a nearly identical crown
16 design;

17 Defendant's current use of a crown imitation;

18 Defendant's failure to identify the watch as coming from
19 him;

20 Defendant's past sales of converted recased watches;

21 Defendant's past substitution of an older movement in a
22 watch submitted to him for conversion without disclosure to
23 the customer?

24 Are these factors relevant in assessing intentional
25 infringement?

1 A. In my view, they are relevant and probative, yes, of
2 infringement.

3 Q. Why is that?

4 A. Because they all indicate the presence of knowing and
5 deliberate infringement.

6 Q. Well, in summary, then, what is your opinion where a new
7 Rolex watch is sold with non-genuine parts?

8 A. I think in that instance confusion of the public is
9 inevitable.

10 MR. KANE: Your Honor, pass the witness.

11 THE COURT: Let's take a break at this time,
12 about a 15-minute break.

13 (Brief recess.)

14 CROSS-EXAMINATION

15 BY MR. NACOL:

16 Q. Good afternoon. Is it Dr. McCarthy?

17 A. Whatever you are comfortable with.

18 Q. What are you comfortable with?

19 A. Professor.

20 Q. Professor McCarthy, will you agree with me that the first
21 principle of unfair competition law is that everything that is
22 not protected by an intellectual copyright is free to be
23 copied? In fact, copying is the essential part of an old
24 family of an economic system for free competition. Thus, the
25 active copying far from being intrinsically improper is

essential and should be lotted and encouraged, not condemned.

Do you agree with that?

A. I do.

Q. You wrote those words, didn't you?

A. It sounds familiar.

Q. When intellectual property comes into play, however, certain rights are protected, correct?

A. That's correct.

Q. As in this case, a likelihood of confusion must exist before there is really any right to do much of anything with regard to what my client has done?

A. Likelihood of confusion is necessary.

Q. And that's more than a mere possibility, isn't it?

A. Likelihood means probability, yes.

Q. And it's the burden of the plaintiff in this case to prove by a preponderance that the public is indeed likely to be confused over what's occurred here?

A. That's correct.

Q. Now, sir, you brought up in your testimony the fact that you thought there was some comparison between the Champion Spark Plug case and this case. Do you really think that it is appropriate or desirable to stamp "used" on a \$4,000 or \$3,000 watchband replacement part for a Rolex band?

A. I believe my testimony indicated that with my opinion that some form of engraving of a trademark on the band or the clasp

20 1 of the band would be necessary. I don't believe I indicated
2 that the word "used" had to be stamped.

3 Q. In that case you were talking about fraud coming out of
4 spark plugs, were you not? Those facts are not relevant to a
5 case where the buyer is far more sophisticated. Isn't that a
6 fair statement?

7 A. Assuming that the buyer is sophisticated and knows this is
8 not a genuine Rolex band, I think is the assumption, that says
9 nothing about post-purchase confusion.

10 Q. And point of fact, would you agree with the statement:
11 Obviously the price level of goods and services are an
12 important factor in determining the amount of care a
13 reasonably prudent buyer would use? Do you agree with that
14 statement?

15 A. Yes, I do.

16 Q. You have heard that one before, too, haven't you?

17 A. It sounds like it's from my book.

18 Q. And don't you consider Rolex, any Rolex, is a very
19 expensive idea?

20 A. Very expensive, yes.

21 Q. And you have to put yourself in the shoes of the buyer
22 who's buying the Rolex product when considering the standard
23 of care, don't you?

24 A. When considering the likelihood of confusion of that
25 buyer, yes.

Q. And in point of fact, with an expensive item like a Rolex watch, as a matter of law, that standard is elevated, the standard of confusion must be elevated; is that not correct?

A. For the immediate purchaser, that's correct.

Q. And I think the word used is elevated to the standard of what's called the "discriminating" purchaser?

A. That's correct.

Q. And isn't that what we are dealing with here, a higher level of standard of care, a higher level discriminating purchaser?

A. Not necessarily for the downstream purchasers or donees or viewers.

Q. Well, haven't we heard testimony throughout this trial that the secondary market is one of the strongest markets in the country for watches?

A. I don't know. I was not in the courtroom.

Q. Do you know or do you know of personal knowledge whether the Rolex secondary market is very good in this country?

A. That's my understanding.

Q. And point of fact, some people can buy a watch and not lose a dollar over 17 years, can't they?

A. I don't know.

Q. Would you assume that if that had been said in the testimony previous to your testimony if that's the case?

A. It sounds reasonable, yes.

Q. Wouldn't you say that the downstream folks who you are worrying about contributory negligence applying to that those folks would be discriminating themselves?

A. Not necessarily.

Q. You don't think that the standard of care, according to you in your textbook, that applies to expensive items being elevated to a discriminating purchaser would be the same if the price stays high throughout the tenure of the life of the item?

A. Are we talking about the bands or the watches?

Q. I am talking about -- let's take, for example, a \$25,000 watch that's worth \$16,000 15 years later or \$18,000. Don't you think that it's still going to take a pretty

discriminating person to spend that kind of money on something that's not food or clothing or a home or something in your home?

A. Even if they are discriminating, how are they going to know that these diamond bezels and dials did not come from the Rolex Watch Company?

MR. NACOL: Objection to nonresponsive of the answer, Your Honor.

THE COURT: Sustained.

BY MR. NACOL:

Q. Don't you think they are less likely to be confused even in the downstream secondary market about a product such as

1 Rolex in the "discriminating" purchaser category because of
2 the expense under the additional care they are taking?

3 A. No, not in this case.

4 Q. And point of fact, haven't you categorized buyers of the
5 Rolex type product as professional buyers?

6 A. Not to my knowledge.

7 Q. You don't recall ever using that term, buyers who are
8 expected to be more discriminating and knowledgeable in making
9 purchases with a heightened standard of care when it comes to
10 the likelihood of the future?

11 A. For professional buyers, people who are in the business of
12 buying, that's correct.

13 Q. Would you not agree that the definition of this manner of
14 that standard of care should be that the relevant buyer class
15 as professional buyers is based on the evidence that this case
16 will present?

17 A. Well, that hasn't been my testimony on direct.

18 Q. I understand that, but is it not your feeling or opinion
19 that the buyers in this case are of that highest level of
20 consciousness?

21 A. My understand is that immediate buyers from the defendant
22 are professional jewelers, and I would expect them to be of a
23 high level of discrimination and knowledge.

24 Q. And you have asked His Honor here today to grant an
25 absolute injunction, haven't you?

1 A. I have, yes, that's my opinion.

2 Q. If, for instance, sir, someone was very wealthy at one
3 time in oil or banking or real estate, whatever industry has
4 failed over the last 30 years, spends \$30,000 on a watch and
5 after 10 or 15 or 20 years he no longer has money and he
6 chooses just to buy another band for that watch. If His Honor
7 takes your advice and grants that absolute injunction, where
8 will this person have to go to get his watch?

9 A. My testimony, I believe, indicates --

10 Q. Watchband, I mean.

11 If the injunction is granted, who is left except Rolex to
12 give him a band he can afford?

13 A. I believe my expert's report, as consistent with my
14 testimony, indicates that I'm fully willing to permit people
15 with used Rolex watches to buy upgraded diamond bands when
16 they desire to do so, as long as there is a certificate
17 indicating that that is the fact.

18 Q. And that's the personal exemption?

19 A. Personal use, that's what I refer to as a personal use
20 exemption.

21 Q. Sir, if that clasp is not changed by the person that you
22 say here today should have the right to do that, and the
23 purchaser simply takes it home and changes the clasp -- they
24 own the clasp, they take it home and put it on the generic
25 custom band -- don't you have all the downstream contamination

1 that you are talking about today?

2 A. You do. I don't understand why someone would want to take
3 a trademark clasp and put it on a new watchband.

4 Q. That's not what I said. I said, if they take the
5 trademark clasp and put it on the generic band, isn't that
6 what we are all about, that that is bad, that that's the bad
7 thing that's going to get people in trouble?

8 A. That creates a counterfeit watchband.

9 Q. How do you explain to His Honor that you want an absolute
10 injunction in this hand but give personal exemption when the
11 very same result is going to occur?

12 A. Because absolute injunction refers to the reconstruction
13 of new watches. That, I think, should be prohibited.

14 Q. And we are talking about conversions. That's what your
15 absolute request of His Honor was was conversion?

16 A. Just to make sure we are on the same page, by conversion
17 you mean --

18 Q. You start off with a silver watch and end up with a
19 Submariner that's blue and gold and it looks brand new, the
20 only thing available was the movement and the dial and
21 everything else is changed.

22 A. And this is a new watch?

23 Q. Yes.

24 A. Yes, that's what I was referring to as requiring an
25 absolute injunction.

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1 Q. Did your attorneys indicate to you today that we
2 stipulated a year ago to do that already?

3 A. No.

4 Q. Besides that injunction, as far as the band goes, to meet
5 your idea of being a fair product that won't contaminate
6 downstream and to satisfy your personal use, are you saying
7 just put the initials inside the clasp?

8 A. Some type of indication of some trademark. The important
9 point is to indicate to people that this is not a Rolex band.

10 Q. Wouldn't "Made in Italy" do that if there was never one
11 Rolex in the history of the universe ever made with "Made in
12 Italy" in that band clasp?

13 A. I don't think "Made in Italy" is sufficient.

14 Q. Why?

15 A. Because it is not a trademark and I don't see how it would
16 indicate to ordinary people as opposed to professionals that
17 this is not a Rolex product.

18 Q. If we write Bob Meece in that clasp next to "Made in
19 Italy," how is that downstream person not going to think
20 that's just a Rolex watch that used to be owned by a guy named
21 Bob Meece and a gift?

22 A. We are trying to inform people that this is not a Rolex
23 band and anything which goes in that direction indicating
24 somebody's name, the identity of some entity or some person, I
25 think, can accomplish that.

2
1 Q. Isn't the whole concept of the Rolex watch the finest
2 Switzerland can offer? Isn't that what it's about?

3 A. That, I believe, is its reputation.

4 Q. If you slap "Made in Italy" in it, don't you think that
5 would bring the "elevated" purchaser to a level of a higher
6 standard where they know what they are buying?

7 A. I don't think so because it does not indicate a commercial
8 source. It indicates where the product was constructed.

9 Q. Now, you used the word counterfeit a lot on your direct
10 examination. Do you have any evidence upon which to base that
11 this gentlemen to my right, Mr. Meece, is a counterfeiter?

12 A. Well, the questions that were asked, the hypothetical
13 question to me indicated and I answered that it was in my
14 opinion counterfeit goods.

15 Q. You are the expert in this area, correct?

16 A. That's correct.

17 Q. You have written many volumes, correct?

18 A. Yes.

19 Q. And you understand what estoppel, laches and acquiescence
20 mean, do you not?

21 A. I believe so.

22 Q. And you understand the host of defenses apply, do you not?

23 A. Yes.

24 Q. Can you tell His Honor how many people you have
25 represented or testified before in the past who were -- strike

2
1 that -- how many counterfeiters you have dealt with in your
2 litigation before who had a series of five to ten
3 correspondences over the years meeting the request of Rolex as
4 to advertising, disclosures, and other matters.

5 MR. KANE: Objection, Your Honor. The record is
6 not there to support that question, especially as to new
7 watches, but especially as to the point that there was
8 correspondence and all the objections were met.

9 MR. NACOL: Your Honor, I am trying to keep -- I
10 haven't had my chance to put my evidence in. If they had all
11 these letters. You had them in the preliminary hearing. I
12 don't think I am putting anything on that's not going to come
13 into evidence. If he needs to hang around tomorrow while I

14 put my case on, I can. I think those letters are in evidence,
15 in the preliminary hearing. If you have already adopted that
16 information, they are in evidence.

17 MR. KANE: It's the characterization as much of
18 the letters, speaking about all these letters and all these
19 things.

20 MR. NACOL: Let me just read the relevant
21 portions.

22 BY MR. NACOL:

23 Q. How many counterfeiters do you know that upon committing an
24 act that's inappropriate send out a clarification notice to
25 every jeweler in the United States of America stating they

2
1 made a mistake, they don't want to do any counterfeiting and
2 it's improper, how many do you know who have done that?

3 A. I have not seen that happen before.

4 Q. How many counterfeiters in Rolex cases do you know who on
5 March 2 of 1994 send a letter to Gibney, Anthony and Flaherty,
6 the plaintiff's law firm in this case, thanking them for
7 reminding him that his September 7, '93 letter with the
8 wording "Not an official Rolex jeweler or affiliated with
9 Rolex U.S.A. Inc. in any way" needed to be bigger, who
10 indicates in the second paragraph that he faxed to the
11 national jeweler to make certain the next future advertising
12 would use diligence to make sure that was done? Have you ever
13 known a counterfeiter in those circumstances to work with the
14 person he's supposedly counterfeiting?

15 A. No one.

16 Q. How many counterfeiters do you know who would in September
17 of 1993 regarding alleged misuse of Rolex trademarks in a
18 previous letter to him of August 27, '93, speak with regard to
19 counter display and the not affiliated language on the counter
20 and not official dealer and in any way better than we will use
21 the phrase in the future and make it bigger, that they will
22 use that phrase and make it bigger and that it is not our
23 intention to confuse or mislead, and a second paragraph with
24 regard to a price sheet, will agree to put all disclaimers on
25 price sheets? Do you know any folks that are willing to work

3
1 with the case in chief?

2 A. No, I am not aware of any.

3 Q. Are those the type of things you would describe to your
4 definition of counterfeiter?

5 A. I was attempting to give the legal definition of what a
6 counterfeiter is as opposed to sort of a popular view of what
7 a counterfeiter ought to look like.

8 Q. And your point with counterfeiter is that unless there is
9 an extreme bad faith, intent to really counterfeit a product,
10 attorneys' fees are not appropriate in a case like this?

11 A. There has to be evidence of some knowing or intentional
12 acts of infringement if it is not a counterfeit to get
13 attorneys' fees. If it is a counterfeit, then attorneys' fees
14 would be mandatory except in exceptional circumstances.

15 Q. Let's suppose that in a given case a gentleman doesn't
16 counterfeit but does infringe in advertisement and out of four
17 million dollars a year worth of work he does take in six
18 watches, two of which from a private eye from the holder of
19 the mark, and in that circumstance, five months before suit is
20 filed, he sends this disclaimer that that was wrong and he
21 will never do it again, and he doesn't do it again, he keeps
22 his word, but suit is filed anyway five months later and the
23 claim is for attorneys' fees for infringement. Do you think
24 attorneys' fees should lie in that situation where the company
25 voluntarily ceased activities, communicated that voluntary

3
1 ceasing and stopped five months before suit was filed?

2 A. Should I assume all these facts are true and proven?

3 Q. Yes.

4 A. It sounds like a situation absent other evidence that
5 would not be intentional and knowing.

6 Q. Now, the Bullova case was about conversions?

7 A. The Bullova case was about taking a Bullova movement and
8 putting it in a diamond studded case.

9 Q. But that was a conversion case like going from a stainless
10 steel to a Submariner. We weren't talking about trade dress
11 in the Bullova case, were we?

12 A. No, we are talking about the trademark, the name, the word
13 itself, Bullova.

14 Q. Well, the band, Rolex doesn't own the right to the band,
15 do they, they don't have a trademark in the band?

16 A. Not in the appearance of the band per se, I am not
17 assuming that they do.

18 Q. These are trade dress items. So the Bullova doesn't even
19 apply to this case, does it?

20 A. It does apply.

21 Q. If you assume that conversion is not in this case, we
22 stipulate that out months ago, Bullova really would not apply
23 to these facts, would it?

24 A. I am confused because the relevance of the Bullova case is
25 taking an essential part of a watch and putting it with other

3
1 important parts to arrive at a final product which is not a
2 genuine trademark product. That is the basis of my opinion
3 about the absolute injunction.

4 Q. Well, certainly the Champion case we are talking about \$2
5 spark plugs doesn't apply to a \$20,000 watch, does it?

6 A. I think that the Champion case involved restoring or
7 repairing products, and it required even in that situation,
8 which is less egregious than changing a product without
9 repairing it, needed permanent marking.

10 Q. If you feel there is a personal exemption for someone to
11 buy part of the trade dress or for his personal use to go
12 ahead and alter the item to the extent that you have indicated
13 so far, if that same person wishes to buy a new Rolex watch

14 and a generic band because he just has enough money for that
15 combination, as long as the same disclosures that you have
16 indicated before go with that item, what is the difference
17 in --

18 A. I think not. The difference is between a used watch and a
19 new watch. I see a significant difference.

20 Q. But the presentation in both cases is from the retailer,
21 isn't it?

22 A. Yes, but in the case of the used watch there is the aspect
23 of repair and restoration, which I think is key to the
24 personal use exemption.

25 Q. I am sorry, explain that to me.

3 1 A. The personal use exemption, as I have characterized it,
2 although not a rule of law, it's just my view of what seems
3 reasonable and necessary under the circumstances, are takes of
4 the notion that part of the watch is worn out, it needs to be
4 5 restored and repaired, and as a part of that process the
6 person wants to upgrade the band or the bezel or the dial or
7 all three with diamond to make it a higher level product.
8 That's what I characterize as a personal use exemption to
9 permit that kind of situation. I see no need to do that, I
10 see no rationale to do that with a brand-new watch.

11 Q. Don't you think there has been testimony from one of the
12 plaintiff's witnesses that there is a definite benefit to the
13 public to have someone to sell generic parts so that you can
14 combine the highest quality of some items with the lower price
15 of other items? Do you agree with that?

16 A. I don't think that's the defense at all.

17 Q. No, my question is do you agree that people should be able
18 to buy a \$3,000 instead of \$8,000 bracelet?

19 A. Not if it's a counterfeit bracelet.

20 Q. If it doesn't fit your category of counterfeit -- I
21 understand how you feel. You are an expert. You have a right
22 to your opinions. But if others don't share that opinion, if
23 they feel the trade dress is protected enough with the
24 existing insignia discriminating it from others, don't you
25 think the public benefits from the right to have that choice?

4
1 A. Only in the same sense the public benefits by being able
2 to buy a \$25 Rolex watch that's not made by the Rolex Watch
3 Company. I don't see that that's a rationale to permit
4 conduct that would otherwise be illegal.

5 Q. Do you know of any \$25 bracelets Mr. Meece has sold?

6 A. No, but I think the principle is the same of taking a
7 product that is not genuine.

8 Q. Well, we don't even get a disclosure as to whether it's on
9 the products, whether it's on tags, whether it's in the box,
10 we don't get to disclosures area and it's not appropriate to
11 even rule in that fashion unless you find an actual trademark
12 infringement, correct?

13 A. That's correct.

14 Q. So if that burden is met on its face, then all these other
15 disclosures are not necessary, and even though they may be
16 problematical, they are not indicated, are they?

17 A. If that burden is not met by the plaintiff, then the
18 question of remedies is irrelevant, that's correct.

19 Q. And there is no entitlement to any recovery of damages if
20 there is no proof of confusion or deception, is there?

21 A. Recovery of out-of-pocket damages requires some proof of
22 actual deception in most cases.

23 Q. In personal facts, your personal use exemption means that
24 people should be able to do with their products what they want
25 to, doesn't it?

1 A. I think that's probably too broad a generalization.

2 Q. Well, have you ever made that statement under oath, sworn
3 testimony to that statement in a previous hearing?

4 A. Yes, I did. I recall making that statement in a case last
5 month in San Diego which involved a different set of facts.

6 Q. That was a Rolex case, too, right?

7 A. Yes, but there was no sale of new watches.

8 Q. How many cases do you testify for Rolex a year?

9 A. This year? This is the second one. I have never done so
10 before.

11 Q. Do you testify a lot as an expert witness?

12 A. I think the last time I testified as an expert witness was
13 two or three years ago.

14 Q. So you don't do it that often?

15 A. No.

16 Q. Have you ever testified for a defendant?

17 A. Yes, many times.

18 MR. NACOL: Thank you, sir, very much.

19 MR. KANE: Your Honor, I would like to locate
20 Plaintiff's Exhibit 69, which was that watch marked into
21 evidence this morning.

22 Your Honor, may I approach the witness with Exhibit
23 72?

24 THE COURT: You may.

25 REDIRECT EXAMINATION

4
1 BY MR. KANE:

2 Q. Professor McCarthy, Exhibit 72 is a genuine Rolex watch on
3 which testimony this morning has indicated that the diamonds
4 have been added to the dial and the diamond bezel has been
5 added as a non-genuine, non-Rolux diamond bezel. So this is a
6 genuine watch with a non-genuine diamond dial and diamond
7 bezel.

8 Now, in your opinion, is there any infringement of Rolex's
9 rights by the marketing of that new watch?

10 A. Yes, in my opinion, as I believe I previously testified,
11 this would be both an infringement and a counterfeit item.

12 Q. What remedy do you think would be necessary to protect
13 Rolux's position with respect to that watch?

14 A. Was this a new watch?

15 Q. Yes, a new watch with a non-genuine diamond dial and
16 diamond bezel added to the new watch.

17 A. As I testified, I believe there should be an absolute
18 injunction against such sales.

19 Q. Thank you. I was referring to part of your
20 cross-examination when the word conversion got introduced into
21 the questions and the answers, and the example of a Rolex
22 stainless steel that got then recased into a gold Submariner
23 was mentioned. Do you remember that question and answer?

24 A. Yes.

25 Q. And your remedy there also was what?

1 A. Was an absolute injunction.

2 Q. But that was not the only case in the facts before you
3 today where you see the need for an absolute injunction?

4 A. Regardless of what one calls a conversion or not a
5 conversion, in my opinion both the type of watch you referred
6 to that I was questioned about on cross, as well as to this
7 watch which I am holding here, is in my opinion an
8 infringement and a counterfeit, which falls within the
9 category of absolute injunction required.

10 Q. And the watch you are holding there is Plaintiff's Exhibit
11 69. I will just note it for the record.

12 MR. KANE: Your Honor, no further questions.
13 Thank you.

14 THE COURT: Anything further of this witness?

15 MR. NACOL: No, Your Honor.

16 THE COURT: The witness may step down.

17 MR. McGOWAN: Your Honor, subject to calling Mr.
18 Lorenz, who would be, you know, available as soon as the Court
19 can hear him on or after February 21, the plaintiff rests. I
20 would like to mention that we would like to see the defense'
21 exhibit, physical exhibits this afternoon rather than
22 tomorrow.

23 MR. NACOL: I believe we can arrange that, Your
24 Honor.

25 MR. McGOWAN: The only other thing I would like